

Servicer Evaluation: Celink

Servicer Analyst:

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Opinion

Standard & Poor's Ratings Services' ranking on Celink, a privately owned mortgage servicer, is ABOVE AVERAGE for residential reverse mortgage servicing.

The ranking reflects our view of the company's management team, which continues to grow, and which we consider knowledgeable and experienced. In addition, we believe the company possesses a sound proprietary systems environment, efficient internal controls, effective policies and procedures, and overall effective servicing of reverse mortgage loans.

Because the characteristics of reverse mortgage loans are very different from those of traditional mortgage loans, we believe satisfactory loan administration requires specific knowledge and expertise. In our view, Celink has continued to successfully hire, develop, train, and retain a staff to proficiently service reverse mortgage loans.

The technology software packages available for use by traditional "forward" mortgage loan servicers are not applicable for reverse mortgage servicing. As such, the company reports that senior management determined it was necessary to foster the development of a proprietary computer system of record to help manage the servicing of a reverse mortgage portfolio, communicate with borrowers, and interface with investors. We believe management continues to build and enhance its proprietary servicing system for reverse mortgages. In our view, this system, along with effective management, has facilitated the company's continued expansion of its reverse-mortgage servicing platform while maintaining industry standards which we consider satisfactory.

Celink has been servicing reverse mortgage loans since 2005, and the organization has continued to grow its reverse mortgage servicing portfolio at a manageable and measured pace. Celink remains the fourth-largest servicer of HUD-insured home equity conversion mortgage (HECM) loans and is the largest independent servicer of private-label HECM loans. Additionally, in 2009, Celink became an approved Ginnie Mae HECM Mortgage Backed Security (HMBS) participation agent and subcontract servicer. The company is now reporting to and subservicing 54 active HMBS pools with over 16,000 participations.

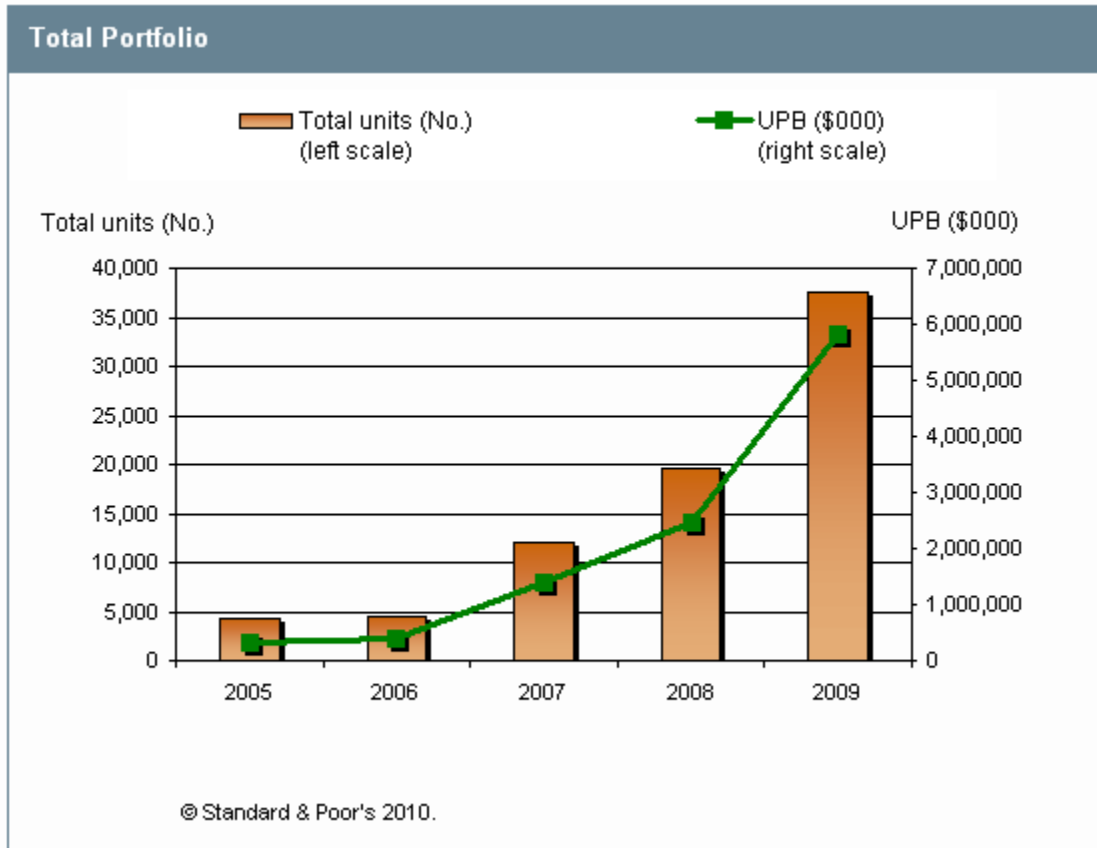
Outlook

The outlook is stable. In our opinion, Celink's management is committed to continue growing the company's reverse mortgage portfolio, and we expect that the company will continue to benefit from its senior management leadership, increasingly experienced loan administration middle management and staff, augmented servicing systems, and efficient internal controls. The company's servicing staff appears to be committed to continuing to develop its expertise as the reverse mortgage portfolio grows, and, in our view, Celink has an effectively designed plan to increase staff in step with this growth. We believe the company's training and mentoring programs are efficient and appropriately focused on the reverse mortgage product, and we expect the development of new training will continue to support the company's servicing function.

In our view, Celink maintains satisfactory compliance and quality control programs and effective internal audits, and demonstrates satisfactory oversight of the unique requirements inherent in reverse mortgage loan servicing. We believe Celink will continue to enhance its loan servicing environment, grow its portfolio, invest in new technologies, and remain an active participant in the residential reverse mortgage market.

Profile

Celinek is now servicing reverse mortgage loans for approximately 28 (19 active) reverse loan originators. The company is an approved reverse mortgage servicer for HUD, Fannie Mae, and Ginnie Mae and is licensed in all 50 states, Puerto Rico, and the U.S. Virgin Islands.



Celinek is a privately owned company engaged predominantly in the servicing of mortgage loans for various investors. To date, Fannie Mae has purchased and/or Ginnie Mae has guaranteed the vast majority of the reverse mortgage loans sold to the secondary market. The company's business strategy has been to service loans under contract rather than to acquire the loan-servicing rights.

Founded in 1969, Celinek entered the reverse mortgage industry in 2005. The staff has expanded both to accommodate portfolio growth and build depth within the organization. The company now has 36 full-time employees dedicated to servicing reverse mortgages. Celinek indicates that it is one of the most active independent mortgage servicing companies in the state of Michigan and that it takes full advantage of the educated and trained population located within close proximity to its office. Before it began focusing on reverse mortgage loan servicing, the company was (and still is, in a more limited capacity) a servicer of traditional forward mortgage loans for state housing finance agencies, HUD Title I loans, and a few mortgages with high loan-to-value (LTV) ratios. The company continues to service a small portfolio of forward mortgage loans, which is amortizing. The portfolio is down to slightly less than 22,000 loans. As of June 30, 2010, Celinek's subservicing portfolio included approximately

42,400 reverse mortgage loans with an aggregate unpaid principal balance of approximately \$6.7 billion, and the company is the largest independent servicer of private-label HUD HECM loans. We believe this represents considerable portfolio growth since the company entered the reverse mortgage industry. Celink management's business plan calls for a continued focus on and steady growth of its reverse mortgage servicing portfolio over the next 12 to 18 months.

Management And Organization

Our subranking for management and organization is ABOVE AVERAGE.

Management and staff recruitment, development, and training

In our opinion, Celink has an experienced, capable, and knowledgeable management team. The company is under the direction of CEO John LaRose, who has over 25 years of industry experience. Mr. LaRose has been the company's CEO since 1985 and is supported by a senior management team that includes a CFO with 24 years of industry experience; a manager for technology with over 30 years of relevant industry experience; a compliance officer with 30 years of experience; and a chief operating officer with over 15 years of mortgage servicing experience, who is responsible for all reverse mortgage loan servicing functions. With the exception of the chief technology officer, all of the senior management staff has been with Celink since the company began servicing reverse mortgage loans. Company management is active in industry-related committees and organizations, especially those pertaining to reverse mortgages.

Reverse mortgage loan administration is a specialized endeavor. In growing its reverse mortgage servicing platform, the company appears to have relied on its increasingly product-experienced and company-tenured management team to mentor and guide new staff in learning a new type of mortgage loan and to support its employees in the performance of their duties. While it has grown, the staff remains small, in our view. Mentoring and cross-training appears to be emphasized in all areas. We believe that the company continues to hone its training, particularly in the customer service, default management, and repair administration areas of loan servicing.

In our opinion, Celink has developed effective policies and procedures. Initially patterned after guidelines from government-sponsored enterprises (GSEs) and relevant federal government housing agencies, Celink indicates its policies and procedures have evolved over time due to the company's development of best practices. According to the company, the policies and procedures are process-mapped, available online, and updated as needed. Individual department managers are responsible for ensuring that procedures affecting their areas of responsibility remain current. Senior management approves all written policies, which the company's compliance officer/operations manager also reviews annually to ensure their relevancy and compliance with all state and federal regulations. Moreover, changes to policies and procedures often occur due to investor requests and/or HUD directives.

The company maintains a small but tenured senior management team with no recent turnover, which, in our opinion, contributes to a stable loan-servicing environment. Other staffing characteristics include:

- The senior management team is appropriately experienced for the ranking, in our view. All have a minimum of four years' reverse mortgage loan servicing experience and 25 years of mortgage industry experience, and average over 17 years of tenure with the company;
- Middle managers average more than three years of reverse mortgage servicing experience and have been with Celink for an average of approximately three years; and

- There has been no servicing management turnover, and recent (year-to-date) reported staff turnover was 5%.

Due to its unique nature, we believe the reverse mortgage product requires a different skill set for servicers than traditional forward mortgage loans. Therefore, Celink's senior management has indicated it supports product-specific training for its staff. The company has a mentor-based training structure and uses call monitoring to identify potential training issues. In its efforts to further enhance training, management has said it sends staff to relevant external seminars and uses the services of outside firms for supplementary education. The company's chief operating officer, who is responsible for the reverse mortgage servicing department, appears to be very active in industry associations that, in our view, have helped develop prudent reverse mortgage servicing guidelines.

Celink provides new hires with approximately 48 hours of general training and orientation, including 24 hours of on-the-job training. New customer service employees receive an additional six hours of classroom training and 24 hours of on-the-job training. Compared with forward mortgage servicers, the company has little collection or loss mitigation activity; however, all employees receive four hours of FDCPA training, and FDCPA certification is required. Overall, in our opinion, Celink is successfully maintaining a satisfactory reverse mortgage-servicing platform, good management, a satisfactory training curriculum, and a growing servicing staff that is becoming increasingly knowledgeable in reverse mortgage loans.

Internal controls

According to the company, senior management plays a significant role in ensuring that the company properly manages its overall responsibilities to its clients and borrowers. The company's organizational chart, albeit small, is effective and, in our view, clearly defines the reporting lines. Management and staff appear to have adequate industry experience and company tenure. The company uses a regional accounting firm for its external audit program. The internal audit schedule and scope are satisfactory, in our view, and adequate for a company the size of Celink. Recent internal reports appear satisfactory to us, and management's responses to the findings have been appropriate, in our view. Celink is compliant with Regulation AB, and the annual audit is HUD-compliant. Our review of the Regulation AB attestation letter for 2009 revealed no findings or negative comments. The internal auditor reports to Celink CEO John LaRose.

Legal

Senior management represents that there are no outstanding matters of litigation or unresolved claims.

Technology

We believe that Celink operates in an automated environment that benefits from significant enhancements, with a proprietary system specifically designed for the company's reverse mortgage portfolio. Celink's chief technology officer has been with the firm since 2006. His staff includes two developers (who work with Cognos and Java/Rational), two other full-time employees, and three contract developers. In our opinion, the chief technology officer has extensive expertise and has greatly facilitated the development of the systems environment.

The company continues to operate using its own system, ReverServ, a Java-based system that is fully scalable. The Java-based servicing platform fully replaced the previous IBM DB II database system and provides unlimited scalability and adaptability. There is facility capacity to an estimated 300,000 loans, and Celink states that there are no known technology constraints on the servicing system that would hinder the company's ability to handle its expected growth in loan volume. The system allows for appropriate interfacing with vendors and investors and is designed to enhance performance.

Additionally, the company uses a client data portal that allows its clients to retrieve standard reports, make ad hoc queries about their data, create customized reports, and view loan-level information.

System security is satisfactory, in our opinion, as evidenced by password administration, a firewall, and what we consider to be a robust intrusion prevention system. The system backs up data daily and monthly and sends backups through a secure online channel, where they are encrypted to a hardened backup facility. All access to data is monitored and audited to help ensure that only those with authorization have access to certain fields. The company also uses an encrypted e-mail process for any external e-mail messages in efforts to ensure that data is transmitted securely. The IT environment includes a backup generator and appropriate risk detectors in the computer room. An outside vendor performs an annual audit, and the company also performs quarterly perimeter penetration tests.

The company has automated a number of required functions, including borrower correspondence, monthly statements, and the historical tracking of interest rates.

Celink's disaster recovery and business continuity plans are satisfactory, in our view. The company has engaged SunGard for this function, the key components of which include disaster recovery, business resumption, and physical security. Teams consisting of Celink management and employees are in place to respond to a disaster and/or business disruption, and the company last tested its disaster recovery and business continuity plans in December 2009. Celink considered test results to be satisfactory. The company states that it tests the plans at least annually. The disaster recovery plan includes a business resumption backup site in Farmington Hills, Mich., which has adequate facilities to accommodate staff. In addition, the data recovery backup site is located in Wood Dale, Ill. Celink also has a designated calling tree to facilitate employee contact in the event of disaster.

An IT audit by an independent third-party vendor in 2009 cited no issues, and management responded to suggestions for enhancement by taking corrective actions where it deemed necessary.

Residential Reverse Mortgage Loan Administration

Standard & Poor's subranking on Celink for loan administration is ABOVE AVERAGE.

Celink's reverse mortgage loan servicing operation is under the direct supervision of Chief Operating Officer Ryan LaRose, who reports directly to the CEO. Although the company's management appears to be concentrating primarily on servicing reverse mortgage loans, Celink indicates that it will continue to service a small portfolio of traditional forward mortgages with a staff dedicated to that endeavor. Accordingly, the company continues to structure and train its servicing staff to effectively administer the reverse mortgage product. Moreover, Celink has added staff to provide additional service. In our opinion, Chief Operating Officer LaRose has a sound industry background, which he continues to develop, and has more than 15 years of overall mortgage servicing experience, with the past five devoted to reverse mortgages. In our view, senior management had successfully managed the considerable but measured growth of the company's reverse mortgage portfolio to approximately \$6.7 billion as of June 30, 2010.

In our evaluation, we reviewed all areas of loan servicing, including loan boarding, the administration of requested remittances to mortgagors (both scheduled and unscheduled), interest rate changes, investor accounting and reporting, customer service, default administration, repair administration, and foreclosure processing. We found all areas to be satisfactory. We discuss key areas of risk in greater detail below.

New loan boarding

We believe that Celinek has the capability to board all loans electronically. Approximately 99% of the loans are currently boarded electronically, a large increase over previously reported results, representing improved efficiency. Electronic loan boarding is limited only by clients' capability to provide electronic loan boarding data. Celinek receives loan data via a secure, encrypted channel and checks 81 data points before boarding each loan. More than 99% of loans are completely boarded in one day, and the company indicates that it performs a 100% document-to-data review within 24 hours of receiving the loan documents from the client. Celinek sends welcome letters to all new borrowers, which is in compliance with RESPA guidelines. The company successfully implemented a document management system to image all servicing documents in 2009.

Cash management and investor accounting

Due to the unique characteristics of reverse mortgage loans, Celinek's cash management and mortgage accounting functions differ greatly from those used to service traditional residential mortgage loans. Unlike borrowers of traditional mortgage loans, reverse mortgage borrowers are not required to remit monthly payments of principal and interest to reimburse advances. Repayments of advances are made at the borrower's discretion. Some choose to pay down previous advances; however, most borrowers never make a monthly payment. Celinek manually posts the very few borrower payments that it does receive. Celinek does not need or have a lockbox operation. Because of the nature of the reverse mortgage product, Celinek advances payments as borrowers leverage the equity of their homes. These advances are based on the types of payment plans the borrowers choose. Basic payment plans are as follows:

- Line of credit payment plan (approximately 75% of portfolio);
- Tenure payment plan;
- Modified tenure payment plan (combines the characteristics of the tenure payment and line of credit plans);
- Term payment plan;
- Lump sum plan (in this plan, the borrower takes all available funds at closing); and
- Modified term payment plan.

Along with HUD's HECM and Fannie Mae's Home Keeper mortgage products, Celinek currently services several proprietary reverse mortgage loan types for clients.

Because reverse mortgage servicers must comply with the payment options that are available to borrowers, they must establish appropriate policies and procedures, a capable staff, and appropriate systems. Monthly tenure and monthly term payments are payable to the borrowers on the first business day of each month. A borrower's request for an advance from a line of credit must be satisfied within five business days after the written request is received. Celinek handles most remittances to borrowers by direct deposit; however, it disburses approximately 25% by check.

Fixed-rate loans make up 37% of the reverse mortgage subservicing portfolio, and the remainder are adjustable-rate mortgages, and interest rates adjust monthly. Servicers are responsible for accurately adjusting mortgage interest rates. Celinek has a staff accountant who determines new rates. The company CFO confirms the new rates and enters them into the system, and the chief operating officer and chief technology officer reconfirm the accuracy of each rate change entry.

With reverse mortgages, borrowers have the option to amend the type of payment plan they commit to, and servicers must make the necessary adjustments when borrowers change their payment plans. Standard & Poor's has reviewed Celinek's operation as it relates to the administration of payment plans and borrower payment remittances, including supervision, segregation of duties, quality control, reconciliations, interest rate changes, and monthly

integration with investor accounting. Based on this review, we believe Celinek is administering all of the compulsory functions in a satisfactory manner.

Servicers are required to report loan activity to investors both daily and monthly. Moreover, servicers must report the following information on a loan-level basis throughout each month:

- Unscheduled payment requests;
- Payment suspensions;
- Foreclosures;
- Bankruptcies;
- Issuance of repayment notices to borrowers;
- Payment plan change requests;
- Partial repayments; and
- Payoffs and repurchases.

Celinek uploads daily transactions and monthly trial balances to eBoutique, Fannie Mae's reverse mortgage investor system. Daily and monthly reconciliations of custodial accounts are required, and Celinek also performs monthly electronic loan-level reconciliations with Fannie Mae, HUD, and Ginnie Mae. As daily reconciliations are made with investors, Celinek is reimbursed for all scheduled and unscheduled remittances to borrowers. Celinek performs virtually all of its investor reporting and 95% of remitting electronically. Standard investor reporting packages include:

- Summary trial balance;
- Detailed trial balance and activity;
- Status code summary;
- Status code detail;
- New loans and loans paid in full;
- Maximum claim report;
- Loans removed; and
- Servicing fee invoice.

Management reviews all investor reports and custodial bank account statements. Department staff growth has been commensurate with the growth of the portfolio, and the company plans to add one or two employees in 2010. Celinek reports that no penalties have been assessed for late reporting or remitting, and the company has established the controls necessary to provide timely and accurate reporting to investors, in our view.

Escrow administration

Properties securing reverse mortgage loans must have hazard insurance, and flood insurance coverage must be in place when applicable. Celinek does not usually escrow tax and insurance payments for any of the loans in its reverse mortgage portfolio. Borrowers are given the choice at closing whether or not they wish to maintain a separate account (set aside) for tax and insurance. Currently, the borrowers for less than 1% of the reverse mortgage loans Celinek services established set-asides for tax and insurance.

Historically, reverse mortgage borrowers assume responsibility for timely payment of taxes and insurance premiums, and borrowers must provide proof of payment to the servicer no later than 30 days after the due date. If proof is not provided, Celinek must exercise the necessary due diligence to verify payment. All policies must have a mortgagee

clause stating that the servicer is notified of any nonpayment of the insurance premium.

Celink outsources the tracking of taxes and insurance to third-party vendors. Celink and its vendors have developed a secured electronic data exchange. The vendor engaged for insurance oversight also provides services to others in the mortgage industry and follows the proper cycle of mail and telephone contact with mortgagors before recommending "lender placed" insurance coverage. The tax vendor, also industry-recognized, follows the acceptable procedures for borrower contact and has the necessary procedures and systems in place to advise Celink of any real estate taxes due or unpaid. Should a real estate tax payment need to be addressed, Celink will advance the funds from the borrower's account or advance the taxes due from corporate funds.

Celink exhibits proper administration of its vendors, in our view, with annual reviews of their procedures and annual recertification of their financial status. By virtue of its internal policies and procedures, the outsourcing arrangements, and management of its vendors, we believe Celink provides satisfactory oversight of tax and insurance indemnification on behalf of its investors.

Celink prepares reconveyances in-house, and the company's lien-release department staff uses third-party reconveyance software. The company reports that it processes all conveyances in compliance with stated guidelines and has incurred no penalties for noncompliance.

Customer relations

In our view, Celink has continuously improved the customer service it provides its clients. As the company's reverse mortgage loan portfolio has grown, the customer service staff has become more knowledgeable and experienced. The number of employees has also grown, and Celink now has 10 "borrower care" associates. The staff includes several bilingual members, and the company also has access to a third-party interpretation service, if necessary, which it uses with borrower approval. New employees benefit from a formal customer service training curriculum, with instruction on reverse mortgage loans and the particular characteristics of its clientele. Celink continues to focus on hiring individuals with customer service experience, but not necessarily mortgage-related experience, for this department.

Because of management and borrower preference, Celink does not use any interactive voice response (IVR) telephone software. Rather, Celink prefers that borrowers speak to a live borrower-care representative. Borrowers do have the option to leave a voicemail if they choose, and Celink promises its borrowers that it will return phone calls within two hours of receiving the message. The company reports an abandonment rate of just 1.8% and an average speed of answer of only 13 seconds, both of which compare favorably with industry averages. The company also reports a first-call resolution rate of 98%.

Celink introduced a proprietary "Borrower Protection Program," a multifaceted plan designed to protect borrowers from potential fraud. The company takes borrower calls Monday through Thursday from 8:00 a.m. to 8:00 p.m. EST, and Friday from 8:00 a.m. to 5:00 p.m. The company randomly monitors inbound customer service calls and has a more formal system for monitoring calls for training purposes, and the company is also developing quality-control measures. Standard & Poor's has determined that overall customer service management is satisfactory, in accordance with our criteria guidelines.

Default management

Like the other components of reverse mortgage servicing, default management requirements are vastly different from those for traditional loan servicing. Because the loan proceeds for reverse mortgages are represented by borrowers'

equity in their homes, and borrowers are not required to remit monthly payments, defaults are not nearly as common as they are for traditional forward mortgages. When defaults do occur, however, the causes differ from those in traditional mortgage scenarios. Typical causes of default in reverse mortgages include:

- Death of the last remaining borrower;
- The last borrower on the note no longer occupies the home;
- Change in ownership;
- Nonpayment of property taxes and/or hazard insurance;
- Failure to complete required repairs (required at closing) within the allotted time; and
- Failure to maintain the property.

Celink has expanded its default management/loss mitigation staff to accommodate portfolio growth and changes in HUD requirements, and it now consists of nine employees. In addition, Celink has hired a new loan administration manager who has oversight over default management activities. Because of the product type, Celink does not measure normal and customary collection performance metrics. However, the company does track default summaries and the primary reason for default. As of June 30, 2010, approximately 3,000 (7%) of the loans in Celink's portfolio were in default. This represents an increase over previously reported levels. The primary causes continue to be death of the homeowner, nonoccupancy, and tax and/or insurance default.

As of June 30, 2010, 457 loans in Celink's portfolio were in foreclosure (all either due to the death of the homeowners or nonoccupancy), and 81 borrowers had declared bankruptcy. Celink has added staff to help manage foreclosure administration.

The primary cure for tax and insurance defaults is a repayment plan. Five employees monitor the status of these defaults. One employee monitors the status of bankruptcy petitions filed by Celink's reverse mortgage borrowers, and the company uses outside bankruptcy counsel, as well as PACER, to track the disposition of bankruptcy filings. Law firms with state-specific expertise coordinate the limited foreclosure-related litigation. Celink uses LenStar to facilitate attorney referrals and communications electronically.

Post-foreclosure and claims administration

In our opinion, Celink has established an effective post-foreclosure and claims administration process. The manager of this unit has over 10 years of reverse mortgage servicing claims experience and has been with the company for approximately five years. The vast majority of the loans in Celink's reverse mortgage loan portfolio are HUD-insured. HUD has conducted claim audits in 2006, 2007, 2008, and 2009 and noted no material findings. The success of this unit is also reflected in its company record of submitting 686 claims (assignments, real estate owned (REO) assets, and short sales) to HUD since September 2005 with no denials.

REO management

Because Fannie Mae loans make up most of Celink's portfolio, there have been very few foreclosures to date that required Celink to administer, market, and sell REO properties. The post-foreclosure manager is responsible for this function. A third-party vendor with the appropriate expertise handles sales of non-Fannie Mae REO properties.

We believe Celink has established the appropriate policies, procedures, and oversight to effectively manage defaults, loss mitigation, foreclosure, REO administration, and borrower bankruptcies to minimize investor risk.

Repair administration

Repair administration is a major component of the reverse mortgage servicing business and is unique to this sector. Celink now has three full-time employees who administer repair administration. The borrower care manager oversees and manages their activities and can assist as needed. Often, FHA-insured reverse mortgage loans require property repairs and improvements to ensure that the owner-occupied home securing the mortgage meets minimum HUD standards. In such cases, a portion of the proceeds of the reverse mortgage loan is set aside to pay for the repairs, which must be completed within 12 months of loan closing (a six-month initial timeline and a potential six-month extension). The amount set aside should equal approximately 150% of the estimated cost of repairs. These funds are subtracted from the principal limit and are not available to the borrower. Celink is responsible for ensuring that the repairs are completed and paid for.

A repair-specific welcome letter is sent to borrowers with a reminder that property repairs are necessary. The letters include recommendations and a guide to the repair process. Celink coordinates due diligence follow-up between the borrower, contractors, and inspectors. Follow-up includes courtesy reminder calls and letters to borrowers. In addition, company policies and procedures include:

- The company reviews all contractor invoices;
- Approximately 13% of new loans require repairs;
- "Set aside" borrower funds for repairs are used as an initial deposit for work to commence, and Celink staff monitors this amount;
- All checks issued are two-party checks; and
- The company ensures that interim and final inspections are performed.

To date, Celink has administered approximately 4,618 completed repairs and is currently monitoring 1,085 active repair administration accounts. Standard & Poor's believes Celink has developed satisfactory procedures to ensure that property repairs are completed effectively and on time.

Financial Position

We consider Celink's financial position to be 'Sufficient', in accordance with our criteria.

Related Criteria And Research

- Servicer Evaluation Ranking Criteria: U.S., published Sept. 21, 2004.

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