

Fitch U.S. High Yield Default Insight — 2012 Outlook

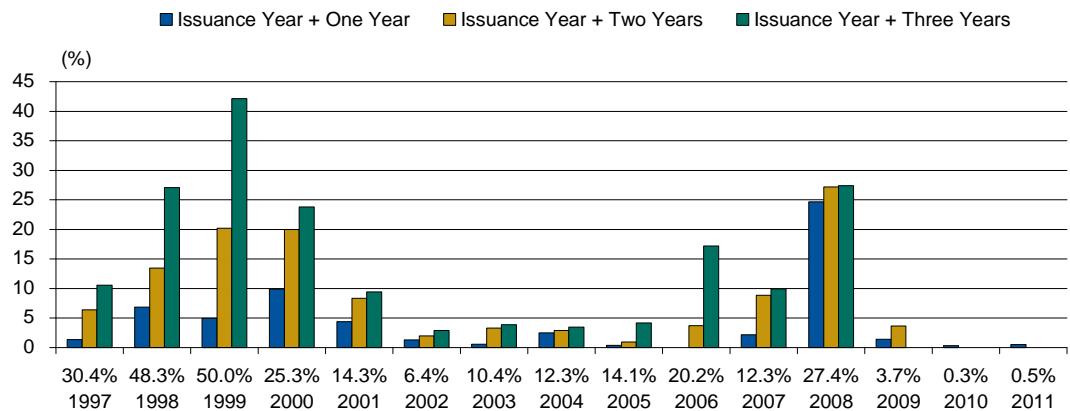
November Pop: The bankruptcy filings of American Airlines and power generator Dynegy Inc., together with four smaller defaults, affected \$6.4 billion in bonds in November. The year-to-date default rate rose to 1.4% from 0.8% in October. The pace of defaults in 2011 has closely tracked Fitch’s expectations, including a clustering of defaults in the second half of the year. Activity in recent months, however, has moved beyond the year-end spike also seen in 2010.

‘CCC’ Strain at Forefront: A more cautious funding environment since the summer is having a greater effect on the most leveraged and vulnerable companies in the high yield universe — ‘CCC’ borrowers in weak industry sectors. This group remains at risk in the soft growth environment projected for 2012. Fitch believes additional stress at this level will push the U.S. high yield default rate to a range of 2.5%–3.0% in 2012, above 2010’s 1.3% rate and November’s 1.4% level. For perspective, the long-term average annual default rate (1980–2010) is 5.1%.

Seasoning also a Consideration: The seasoning of transactions brought to market from 2009 through 2011 will also contribute more significantly to defaults beginning in 2012 and continuing in 2013–2015. To date, default rates on the 2010 and 2011 issuance pools have been especially low at 0.3% and 0.5%, respectively. This is not sustainable. The operating success of companies that refinanced over this period will be tested over the next several years, especially in light of anticipated below-trend economic activity. Already in 2011, the default rate on the 2009 vintage rose to 3.7%, up from 1.4% in 2010.

Fundamentals Support Below-Average Defaults: Outside of the default-prone ‘CCC’ space, high yield fundamentals remain quite good, providing the most compelling support for another below-average default year in 2012. Aggregate financial data compiled by Fitch in fact shows a renewed focus on business investment which is also visible in U.S. economic data. The extent to which the European crisis disrupts this activity will determine whether defaults remain low and generally tethered to the ‘CCC’ universe, or move higher up the rating scale.

High Yield Default Rates by Vintage



Note: Cumulative vintage default rates are shown above the year.
Source: Fitch U.S. High Yield Default Index.

Related Research

- [Global Economic Outlook, Dec. 12, 2011](#)
- [U.S. Corporate Capital Expenditure Study: 2011 Surge Not Maintained, Dec. 7, 2011](#)
- [Bridging the Refinancing Cliff, Volume IV – Downside Case, Dec. 1, 2011](#)
- [European High Yield Issuance and Default Review and Outlook, Nov. 7, 2011](#)

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November Results: Lagging and Leading

November's \$6.4 billion in defaults was the highest recorded for a single month since late 2009. While the year-to-date default rate remained modest at 1.4%, the month's activity equates to an annualized default rate of 7% (on a par basis and also on an issuer basis). It is certainly not unusual for default patterns to be choppy in a low default environment — three months of 2011, for example, saw zero defaults. However, November's pop shows that default conditions in recent months have shifted away from the ultra-benign environment seen earlier in 2011. Fitch believes this is due to the lagged effect of weak growth in the first half of the year, compounded by issuance interruptions caused by the European debt crisis. Defaults, in fact, totaled just \$2.1 billion from January to June, while July–November added \$12.8 billion to the year's tally.

U.S. GDP Growth Drivers

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Real U.S. GDP Growth^a	(6.7)	(0.7)	1.7	3.8	3.9	3.8	2.5	2.3	0.4	1.3	2.0
Contributions to % Change in Real GDP											
Consumer Spending	(1.02)	(1.28)	1.66	0.33	1.92	2.05	1.85	2.48	1.47	0.49	1.63
Fixed Residential Investment	(1.19)	(0.60)	0.42	(0.10)	(0.41)	0.50	(0.76)	0.06	(0.06)	0.09	0.04
Fixed Nonresidential Investment	(3.90)	(1.66)	(0.29)	(0.33)	0.56	1.62	1.04	0.82	0.20	0.98	1.41
Change in Private Inventories	(2.66)	(0.58)	0.21	3.93	3.10	0.79	0.86	(1.79)	0.32	(0.28)	(1.55)
Net Exports of Goods and Services	2.44	2.21	(0.59)	0.15	(0.97)	(1.94)	(0.68)	1.37	(0.34)	0.24	0.49
Government Spending	(0.33)	1.21	0.28	(0.18)	(0.26)	0.77	0.20	(0.58)	(1.23)	(0.18)	(0.02)

^aAnnualized.

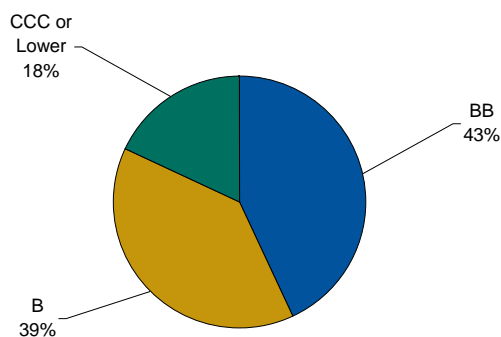
Source: Bureau of Economic Analysis.

In contrast to 2010, when defaults experienced a surge late in the year and contracted in the first half of 2011, Fitch believes default activity will remain elevated going into 2012 with the default rate ending the year in a range of 2.5% to 3.0% — still below average but roughly twice the rate recorded in 2010 and 2011. The bulk of defaults will continue to come from the very bottom of the rating scale where weak and inconsistent economic activity, industry-specific challenges, and greater risk aversion in the funding markets will necessitate additional debt restructurings.

A Below-Trend Economy and 'CCC' Credits

High yield defaults have been both infrequent and fairly concentrated in the past two years, with the vast majority originating from the 'CCC' or lower rating pool. The default rate at this level was in fact 5.7% through November versus 0.4% for the rest of the market. Fitch projects that the 'CCC' default rate will rise to 10% in 2012 — this translates into approximately \$20 billion in defaults from this group alone over the course of the year. For perspective, currently 18% of high yield market volume consists of issues rated 'CCC' or lower (\$197 billion in bonds).

U.S. High Yield Rating Mix
(At Nov. 30, 2011)



Source: Fitch Ratings, Bloomberg.

Related Criteria

[Corporate Rating](#) [Methodology](#),
Aug. 12, 2011

As Fitch has discussed in prior commentaries, U.S. GDP growth rebounded strongly following the early 1990s and 2000s recessions. Growth rates averaged 3% or better, providing support for even 'CCC' rated borrowers. This recovery has been inconsistent — moving in fits and starts — and hobbled by severe stress in the financial sector, high consumer and public debt levels, and the pressures of a fully integrated global marketplace. Fitch believes that struggling companies will have a more difficult time in 2012 than in either 2010 or 2011. Market perception surrounding the viability of these issuers has deteriorated as growth forecasts have been cut. This points to a more challenging operating and funding environment for these companies going forward.

Updating analysis conducted in October, Fitch finds that as of mid-December, approximately \$60 billion in 'CCC' issues were trading at the distressed level of 80% of par or lower. If just 30% of these bonds default over the course of 2012 (comparable to the default rate on 2011 distressed 'CCC' bonds), this also translates into \$18 billion in defaults from this group. For perspective, at the beginning of 2011, \$29 billion in 'CCC' issues were trading at 80% of par or lower. This at-risk pool has doubled in size over the past year.

Another important consideration here is the concentration of sick industries within the distressed 'CCC' universe. They are not just highly leveraged companies — they are highly leveraged companies in troubled sectors. Notable industries include broadcasting and media; gaming, lodging, and restaurants; building and materials; paper and containers; banking and finance; and energy. Each of these sectors has already been a meaningful source of defaults in 2010 and 2011. When an entire industry is under duress, the likelihood of multiple defaults from that sector increases both for fundamental and competitive reasons. When one company restructures — lowering its debt burden — it puts similarly leveraged peers at a disadvantage and hence the pressure to follow suit is very high.

A Dash of Seasoning in the 2012 Mix

Seasoning is another factor that will begin to more fully influence default patterns in 2012. A striking 63% of U.S. high yield market volume currently outstanding (\$670 billion) consists of bonds sold from 2009–2011. As shown in the chart on page 1, the three years, especially the 2010 and 2011 cohorts, have to date produced few defaults. Default rates on the 2009, 2010, and 2011 vintages hit 3.7%, 0.3%, and 0.5%, respectively, through November. This performance, of course, has been an important contributing factor to the overall benign default environment of 2010 and 2011. Fitch projects, however, that the seasoning of these same transactions will add more significantly to defaults beginning in 2012 and accelerating in 2013–2015, especially given what is expected to be a relatively low growth year.

While the actual level of defaults varies with macro conditions, time also plays a part in the frequency of default. In particular, high yield defaults tend to be low one to two years after issuance when liquidity receives a short-term boost from newly issued debt. A more critical time emerges in the second to third year following issuance. The volume of high yield bonds sold in 2010 and 2011 alone is so considerable — totaling \$500 billion in aggregate — that even a modest increase in the default rate on these two vintages will have an effect on the overall default rate. As shown, the default rate on the 2009 cohort already moved up to 3.7% in 2011 from 1.4% in 2010. A similar pattern is sure to emerge for the 2010 and 2011 pools — especially given that the rating mix for the two years was more aggressive than in 2009.

It is worth noting that under periods of extreme stress, such as in 2009, the cushion provided by recent issuance activity loses meaning. For example, the default rate on bonds sold in 2008 soared to 25% by the end of 2009 as the deep financial and economic crisis overwhelmed all

other factors. Seasoning is a consideration under more normal business conditions when defaults are driven mostly by idiosyncratic factors.

The Tug of War: Good Fundamentals vs. Trouble in Europe

Outside of the 'CCC' space, high yield fundamentals remain quite good, providing the most compelling support for another below-average default year in 2012. A recent Fitch survey of the aggregate financial performance of a large and diverse group of 'BB' and 'B' rated borrowers shows that revenue and EBITDA continued to grow faster than debt in 2011. The data also revealed a shift away from the deep conservatism of 2009 and 2010 toward a more growth-oriented focus — a positive for the U.S. economy even if it suggests a modestly riskier corporate environment going forward.

Key Financial Variables: 297 'BB' and 'B' Rated Companies

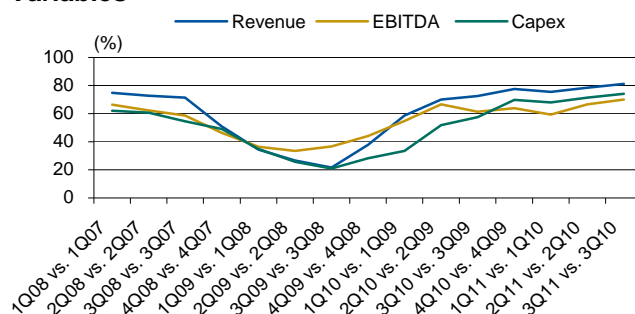
(%, Sept. TTM)	2007 vs. 2006	2008 vs. 2007	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010
Cash	15.3	9.1	22.2	2.4	(1.3)
Total Debt	16.3	10.1	(2.0)	0.7	7.5
Revenue	7.4	10.1	(14.5)	3.9	10.9
EBITDA	(1.6)	11.6	(20.0)	16.7	16.0
Capital Expenditures	15.4	22.2	(25.6)	(10.6)	27.8

Note: Based on the aggregate financial performance of 297 companies with market composite ratings of 'BB' or 'B'.
TTM – Trailing 12 months
Source: Fitch, Bloomberg, SEC filings.

For the 297 companies in Fitch's sample (with total debt outstanding of \$550 billion) this change in orientation is most visible in the 27.8% year-over-year increase in capital expenditures and the 7.5% increase in total debt. While there was a modest contraction in cash balances, cash to total debt for this group remained considerable at 17.5%. Traditional credit metrics, such as EBITDA less capital expenditures to interest, also held up well — although the data show that credit gains from two years of corporate belt tightening hit a plateau in 2011.

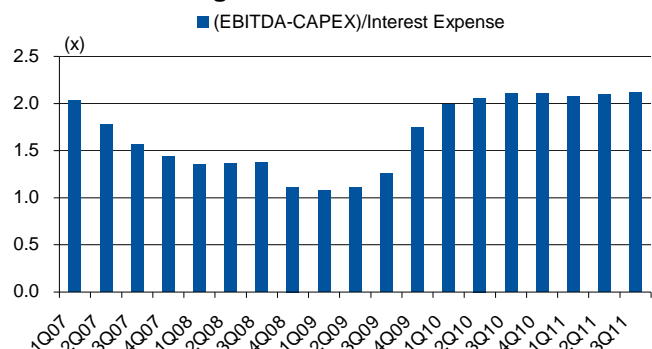
The increase in business investment noted above is mirrored in U.S. GDP data. Over the past two years, growth in fixed nonresidential investment has provided an offset to shrinking government spending, a weak housing market, and cautious consumer spending. This has been a clear positive but presents a key macro risk for 2012 — the sustainability of business investment in the face of the European debt crisis and growing fears of a global slowdown. A recession brought about by a retrenchment in business investment which would surely also

Companies Reporting Increases in Key Financial Variables



Note: Based on the aggregate financial performance of 297 companies with market composite ratings of 'BB' or 'B'.
Source: Fitch, Bloomberg, SEC Filings.

Interest Coverage

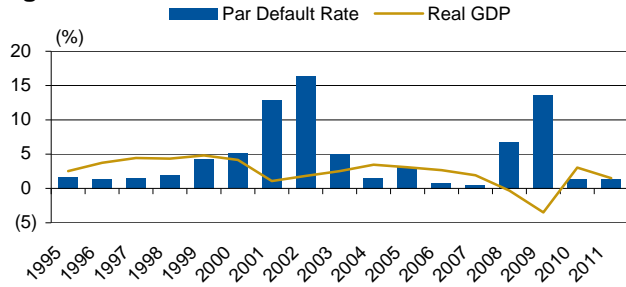


Note: Based on the aggregate financial performance of 297 companies with market composite ratings of 'BB' or 'B'.
Source: Fitch, Bloomberg, SEC Filings.

affect employment, would drive the high yield default rate above the 2.5%–3.0% range projected by Fitch. The forecast assumes that GDP growth will hover close to 2% in 2012 — weak for some distressed ‘CCC’ entities as noted above but, with the backdrop of good fundamentals, sufficient to ensure below-average defaults among higher rated speculative grade companies.

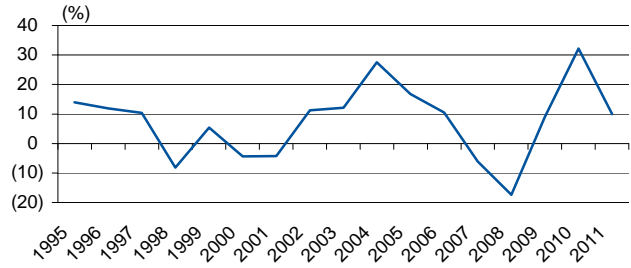
Defaults vs. Macroeconomic Trends

High Yield Default Rates vs. GDP Growth



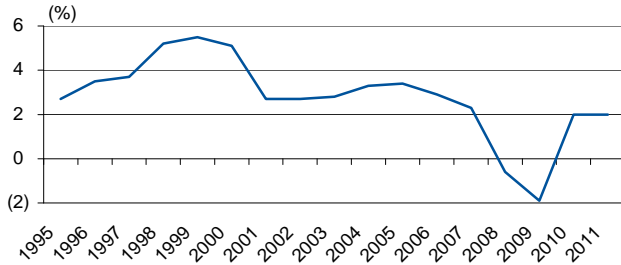
Source: Fitch U.S. High Yield Default Index, Bureau of Economic Analysis.

Corporate Profit Growth



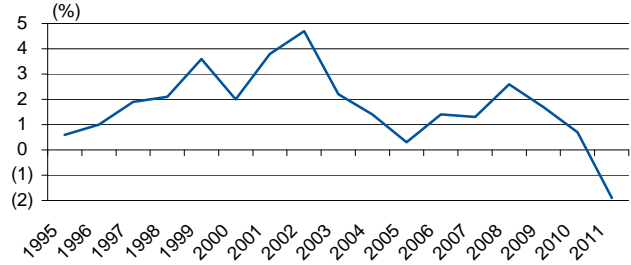
Source: Bureau of Economic Analysis.

Consumer Spending



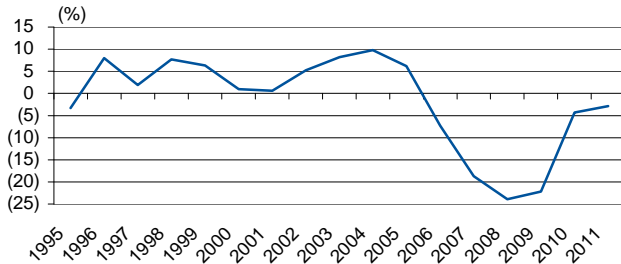
Source: Bureau of Economic Analysis.

Government Spending



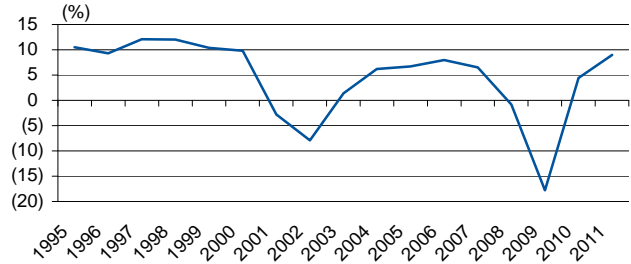
Source: Bureau of Economic Analysis.

Fixed Residential Investment



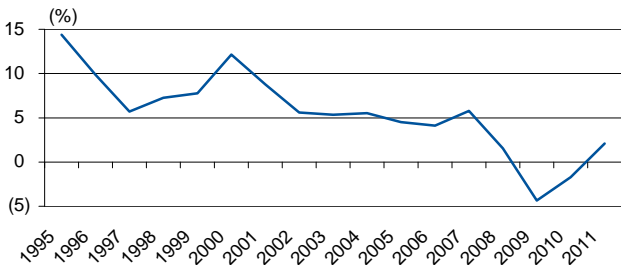
Source: Bureau of Economic Analysis.

Fixed Nonresidential Investment



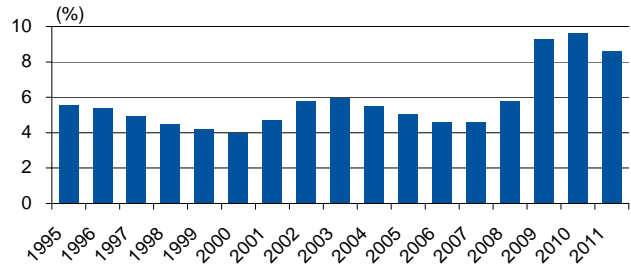
Source: Bureau of Economic Analysis.

Consumer Credit



Source: Federal Reserve.

Unemployment Rate



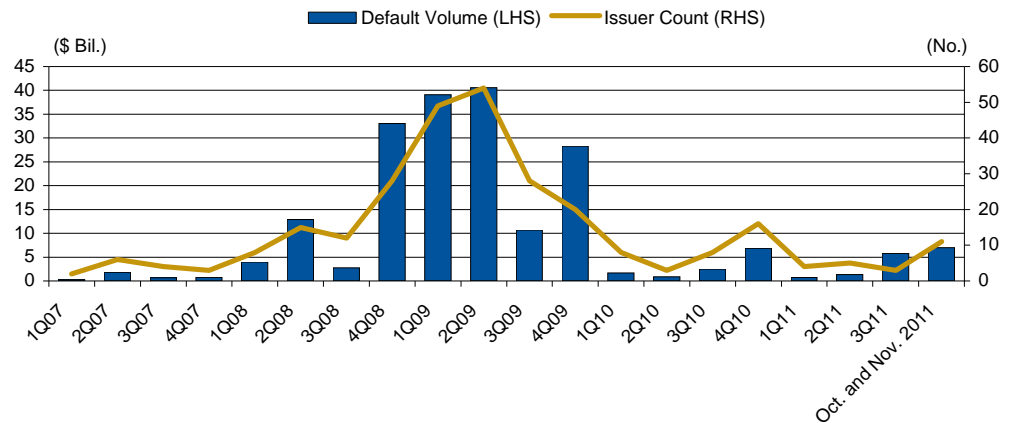
Source: Bureau of Labor Statistics.

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Default Watch

Fitch U.S. High Yield Default Index — Quarterly Issuer and Volume Trends



Source: Fitch U.S. High Yield Default Index.

Fitch U.S. High Yield Default Index — Distribution of Defaults by Source

	Par Value (\$ Bil.)	%	Issuers	%	Issues	%
2010						
Chapter 11 Filing	5.0	42.1	13	37.1	20	41.7
Missed Payment	4.8	40.4	15	42.9	21	43.8
Distressed Exchange	2.1	17.5	7	20.0	7	14.6
Total	11.9	100.0	35	100.0	48	100.0
November 2011 YTD						
Chapter 11 Filing	13.2	88.5	15	65.2	35	67.3
Missed Payment	1.3	9.0	6	26.1	9	17.3
Distressed Exchange	0.4	2.5	2	8.7	8	15.4
Total	14.9	100.0	23	100.0	52	100.0

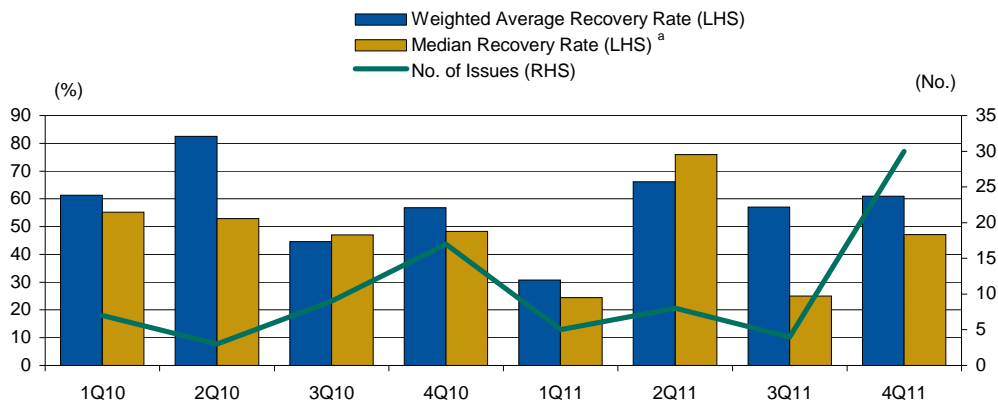
Source: Fitch U.S. High Yield Default Index.

Fitch U.S. High Yield Default Index: Industry Default Rates

Industry	Average Annual 1980–2010	2010	November 2011 YTD
Automotive	7.4	0.5	0.8
Banking and Finance	8.3	1.5	0.5
Broadcasting and Media	5.3	5.5	—
Building and Materials	4.7	2.2	1.3
Cable	5.1	—	—
Chemicals	3.0	—	—
Computers and Electronics	3.1	0.3	—
Consumer Products	3.3	—	—
Energy	2.0	1.1	2.1
Food, Beverage, and Tobacco	3.9	1.5	—
Gaming, Lodging, and Restaurants	4.7	1.3	1.7
Healthcare and Pharmaceutical	2.5	1.8	—
Industrial/Manufacturing	3.3	0.8	—
Insurance	5.2	—	—
Leisure and Entertainment	5.3	—	—
Metals and Mining	4.2	1.2	—
Miscellaneous	2.1	0.3	—
Paper and Containers	4.3	1.0	10.2
Real Estate	2.6	—	—
Retail	4.4	3.0	1.9
Supermarkets and Drug Stores	5.3	3.1	—
Telecommunications	9.9	1.2	0.4
Textiles and Furniture	6.8	—	—
Transportation	6.4	1.7	7.3
Utilities	5.5	—	5.9
Total Index	5.1	1.3	1.4

Source: Fitch U.S. High Yield Default Index.

Trends in Recovery Rates



^aSimilar seniorities collapsed into one observation.
Source: Fitch Ratings, Advantage Data.

Recovery Rates by Seniority

	Weighted Average Recovery Rate (%)	Median Recovery Rate (%) ^a	No. of Issues
2010			
Senior Secured	64.3	55.3	15
Senior Unsecured	69.3	81.6	10
Senior Subordinated	28.3	16.9	11
Total Defaulted Issues	56.7	50.0	36
November 2011 YTD			
Senior Secured	67.7	74.7	18
Senior Unsecured	48.4	21.2	30
Senior Subordinated	29.4	23.1	4
Total Defaulted Issues	58.4	46.4	52

^aSimilar seniorities collapsed into one observation.
Source: Fitch Ratings, Advantage Data.

Recovery Rates by Industry

Industry	Weighted Average Recovery Rate (%)	No. of Issues
2010		
Telecommunication	100.6	1
Miscellaneous	98.6	1
Supermarkets and Drug Stores	89.5	1
Paper and Containers	86.9	1
Transportation	80.6	1
Gaming, Lodging, and Restaurants	69.0	3
Industrial/Manufacturing	62.1	1
Energy	61.3	3
Building and Materials	53.8	3
Healthcare and Pharmaceutical	52.6	3
Metals and Mining	49.5	2
Retail	44.6	3
Banking and Finance	43.2	5
Broadcasting and Media	35.1	7
Computers and Electronics	9.6	1
Total Defaulted Issues	56.7	36
November 2011 YTD		
Telecommunication	78.1	2
Energy	74.7	4
Transportation	66.6	8
Utilities	64.9	8
Retail	58.5	5
Gaming, Lodging, and Restaurants	49.3	5
Paper and Containers	42.9	5
Building and Materials	37.1	10
Banking and Finance	34.2	4
Automotive	24.6	1
Total Defaulted Issues	58.4	52

Source: Fitch Ratings, Advantage Data.

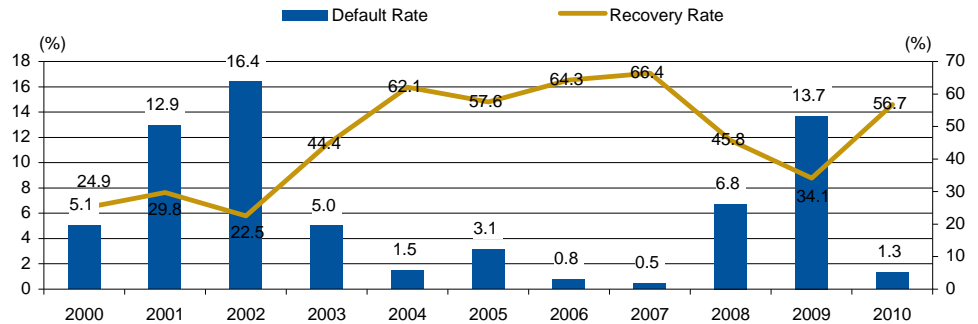
List of U.S. High Yield Bond Defaults on Trailing 12-Month Basis

Month	Issuer	Par Value (\$ Mil.)	Default Date	Default Source	Industry
December 2010	Insight Health Services	281.0	12/1/10	Missed Payment	Healthcare and Pharmaceutical
	Indianapolis Downs Cap/LLC	447.6	12/1/10	Missed Payment	Gaming, Lodging, and Restaurants
	Trico Shipping AS	400.0	12/1/10	Missed Payment	Transportation
	Molecular Insight Pharmaceuticals	202.9	12/9/10	Chapter 11 Filing	Healthcare and Pharmaceutical
	Great Atlantic & Pacific Tea	260.0	12/12/10	Chapter 11 Filing	Supermarkets and Drug Stores
	Subtotal	1,591.5			
January 2011	No Default Activity				
February 2011	No Default Activity				
March 2011	Sbarro Inc.	150.0	3/1/11	Missed Payment	Gaming, Lodging, and Restaurants
	Ahern Rentals Inc.	236.7	3/15/11	Missed Payment	Banking and Finance
	Harry & David	198.4	3/28/11	Chapter 11 Filing	Retail
	Keystone Automotive Operating	172.7	3/28/11	Distressed Exchange	Automotive
	Subtotal	757.7			
April 2011	Satelites Mexicanos	436.1	4/6/11	Chapter 11 Filing	Telecommunication
	Subtotal	436.1			
May 2011	Perkins & Marie Callender's Inc.	322.0	5/1/11	Missed Payment	Gaming, Lodging, and Restaurants
	Hipotecaria Su Casita SA	150.0	5/4/11	Missed Payment	Banking and Finance
	Subtotal	472.0			
June 2011	Nebraska Book Co.	375.0	6/27/11	Chapter 11 Filing	Retail
	NBC Acquisition Corp.	77.0	6/27/11	Chapter 11 Filing	Retail
	Subtotal	452.0			
July 2011	OPTI Canada Inc.	2,575.0	7/13/11	Chapter 11 Filing	Energy
	Subtotal	2,575.0			
August 2011	No Default Activity				
September 2011	NewPage Corp.	2,998.8	9/7/11	Chapter 11 Filing	Paper and Containers
	NewPage Holding Corp.	229.0	9/7/11	Chapter 11 Filing	Paper and Containers
	Subtotal	3,227.8			
October 2011	Real Mex Restaurants Inc.	130.0	10/4/11	Chapter 11 Filing	Gaming, Lodging, and Restaurants
	Hovnanian Enterprises	195.0	10/31/11	Distressed Exchange	Building and Materials
	William Lyon Homes Inc.	283.3	10/31/11	Missed Payment	Building and Materials
	Subtotal	608.3			
November 2011	River Rock Entertainment	200.0	11/1/11	Missed Payment	Gaming, Lodging, and Restaurants
	NGC Corp Cap Trust I	200.0	11/7/11	Chapter 11 Filing	Utilities
	Dynegy Holdings LLC	3,371.8	11/7/11	Chapter 11 Filing	Utilities
	Trailer Bridge Inc.	82.5	11/16/11	Chapter 11 Filing	Transportation
	General Maritime Corp.	300.0	11/17/11	Chapter 11 Filing	Transportation
	PMI Group Inc.	400.0	11/23/11	Chapter 11 Filing	Banking and Finance
	American Airlines Inc.	1,656.1	11/29/11	Chapter 11 Filing	Transportation
	AMR Corp.	167.3	11/29/11	Chapter 11 Filing	Transportation
	Subtotal	6,377.7			

Source: Fitch Ratings.

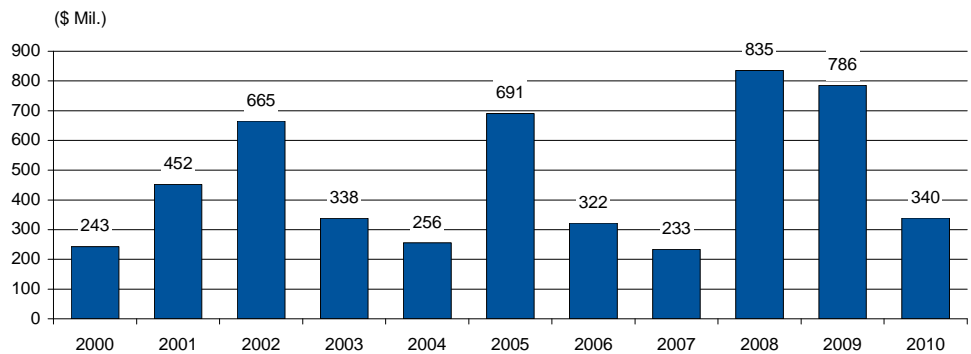
Historical Default and Recovery

Fitch U.S. High Yield Default Index



Source: Fitch U.S. High Yield Default Index.

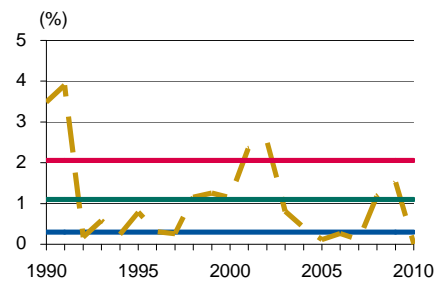
Average Par Value of Bond Defaults per Issuer — 2000–2010



Source: Fitch Ratings.

'BB' Default Rate Cyclicity^a

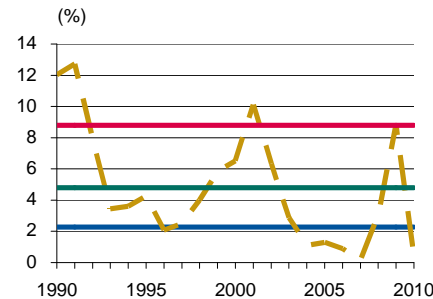
Benign Environment Avg. Default Rate
 Annual Default Rate
 Avg. Annual Default Rate
 Stress Environment Avg. Default Rate



^aDefault rates based on market composites.
 Source: Fitch Ratings.

'B' Default Rate Cyclicity^a

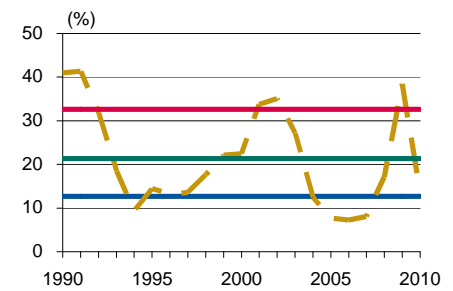
Benign Environment Avg. Default Rate
 Annual Default Rate
 Avg. Annual Default Rate
 Stress Environment Avg. Default Rate



^aDefault rates based on market composites.
 Source: Fitch Ratings.

'CCC' Default Rate Cyclicity^a

Benign Environment Avg. Default Rate
 Annual Default Rate
 Avg. Annual Default Rate
 Stress Environment Avg. Default Rate



^aDefault rates based on market composites.
 Source: Fitch Ratings.

Industry Default Rates — 2000–2010

(%)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Automotive	4.4	28.3	4.2	—	0.8	10.5	6.5	2.1	2.2	44.2	0.5
Banking and Finance	3.2	21.8	5.1	1.8	0.2	1.1	0.3	—	29.2	24.3	1.5
Broadcasting and Media	0.3	4.1	7.9	1.6	2.9	0.5	1.2	1.6	9.9	31.7	5.5
Building and Materials	16.2	4.3	3.7	0.6	—	—	0.6	—	8.6	8.9	2.2
Cable	—	1.2	34.4	1.2	—	—	—	—	—	36.4	—
Chemicals	2.0	10.5	4.7	4.7	1.5	—	—	—	2.4	18.0	—
Computers and Electronics	4.8	3.1	7.6	0.4	1.3	—	0.0	—	—	16.2	0.3
Consumer Products	9.6	12.5	3.2	—	1.8	—	1.3	1.8	—	16.8	—
Energy	1.1	0.3	2.4	2.8	0.6	—	—	—	1.9	2.4	1.1
Food, Beverage, and Tobacco	15.6	12.4	5.3	9.3	1.4	—	0.8	1.6	6.0	3.0	1.5
Gaming, Lodging, and Restaurants	2.4	3.2	2.1	1.7	5.8	—	0.4	—	14.5	22.4	1.3
Healthcare and Pharmaceutical	6.8	3.4	—	12.3	0.6	0.6	—	1.3	0.3	—	1.8
Industrial/Manufacturing	2.7	8.4	5.2	5.5	1.8	6.9	0.7	—	2.4	8.7	0.8
Insurance	15.0	—	35.2	15.6	—	—	2.8	—	—	—	—
Leisure and Entertainment	14.4	17.8	1.2	—	—	—	—	5.4	16.9	15.4	—
Metals and Mining	6.7	16.4	20.2	9.6	5.5	1.3	—	—	—	3.6	1.2
Miscellaneous	5.1	2.8	2.2	0.5	1.9	0.1	0.6	—	1.4	5.7	0.3
Paper and Containers	3.2	10.9	8.2	0.6	1.1	0.8	3.3	0.9	6.5	25.9	1.0
Real Estate	—	—	—	—	—	—	—	—	1.6	12.0	—
Retail	3.4	5.6	11.8	2.5	0.6	0.7	—	1.6	3.3	0.6	3.0
Supermarkets and Drug Stores	13.8	3.6	2.3	1.1	—	3.3	—	0.3	—	4.5	3.1
Telecommunications	5.1	23.9	43.5	11.0	2.2	—	—	0.1	1.2	6.2	1.2
Textiles and Furniture	9.5	12.2	13.2	14.2	3.0	3.6	1.7	—	—	11.7	—
Transportation	18.1	5.7	13.2	8.8	1.4	24.2	2.7	—	—	8.5	1.7
Utilities	—	34.2	14.0	9.8	0.2	14.9	—	—	—	0.2	—
Total Market	5.1	12.9	16.4	5.0	1.5	3.1	0.8	0.5	6.8	13.7	1.3

Source: Fitch Ratings, Bloomberg.

Industry Recovery Rates — 2000–2010

(%)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Automotive	11.9	12.0	16.9	—	81.6	53.2	59.2	73.1	9.1	15.3	—
Banking and Finance	15.1	77.5	27.0	25.6	—	73.9	94.6	—	57.2	63.8	43.2
Broadcasting and Media	33.0	22.3	33.9	31.0	46.7	—	96.9	67.4	33.3	11.8	35.1
Building and Materials	27.6	33.3	20.9	35.6	—	—	26.0	—	25.6	51.2	53.8
Cable	—	53.4	41.1	30.8	—	—	—	—	—	43.1	—
Chemicals	12.8	29.4	19.0	41.2	52.4	—	—	—	9.6	25.0	—
Computers and Electronics	13.5	13.5	14.5	62.1	69.4	—	—	—	—	25.4	9.6
Consumer Products	16.4	24.7	13.3	—	43.6	—	39.6	15.3	—	30.6	—
Energy	53.9	8.0	49.0	59.2	71.7	—	—	—	28.8	43.0	61.3
Food, Beverage, and Tobacco	22.3	30.9	29.8	17.3	20.1	—	12.6	75.8	24.9	6.0	—
Gaming, Lodging, and Restaurants	28.5	15.8	76.7	79.2	86.9	—	101.4	—	28.5	19.2	69.0
Healthcare and Pharmaceutical	17.0	18.6	—	55.3	63.0	60.0	—	70.0	0.1	—	52.6
Industrial/Manufacturing	19.7	16.2	31.9	26.9	74.2	69.9	66.9	—	7.8	21.8	62.1
Insurance	27.0	—	9.4	10.5	—	—	44.6	—	—	—	—
Leisure and Entertainment	17.1	11.0	59.8	—	—	—	—	98.7	39.8	32.0	—
Metals and Mining	13.1	11.6	35.9	33.5	44.0	61.3	—	—	—	51.8	49.5
Miscellaneous	14.5	22.0	8.8	22.6	79.9	—	116.1	—	21.5	14.4	98.6
Paper and Containers	29.4	8.6	64.4	39.8	51.6	48.4	55.1	53.6	61.1	17.8	86.9
Real Estate	—	—	—	—	—	—	—	—	9.3	61.1	—
Retail	22.4	7.4	48.2	44.7	—	—	—	24.6	37.1	1.1	44.6
Supermarkets and Drug Stores	49.0	21.9	48.6	58.6	—	55.6	—	65.0	—	97.5	89.5
Telecommunications	32.8	11.5	13.5	34.0	53.8	—	—	9.0	10.9	20.3	100.6
Textiles and Furniture	15.0	11.3	27.6	23.5	33.9	42.2	68.6	—	—	15.6	—
Transportation	32.7	30.6	18.5	39.8	20.6	29.3	70.2	—	—	43.8	80.6
Utilities	—	60.1	30.0	72.9	—	71.1	—	—	—	17.6	—
Total Market	24.9	29.8	22.5	44.4	62.1	57.6	64.3	66.4	45.8	34.1	56.7

Source: Fitch Ratings, Bloomberg, Advantage Data.

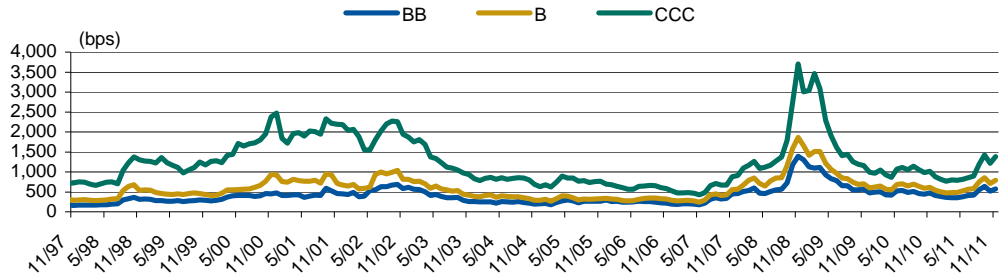
Recovery Rates by Seniority — Bonds

(%)	Weighted Average Recovery Rate	Median Recovery Rate ^a	Number of Issues
2000			
Senior Secured	50.5	47.5	19
Senior Unsecured	18.4	13.3	74
Senior Subordinated	27.1	20.0	64
Total Defaulted Issues	24.9	20.0	157
2001			
Senior Secured	60.3	22.4	34
Senior Unsecured	27.8	12.8	234
Senior Subordinated	16.7	16.6	71
Total Defaulted Issues	29.8	15.8	339
2002			
Senior Secured	44.9	41.3	22
Senior Unsecured	21.2	20.5	267
Senior Subordinated	24.3	19.5	30
Total Defaulted Issues	22.5	21.9	319
2003			
Senior Secured	69.8	63.2	13
Senior Unsecured	47.0	39.7	104
Senior Subordinated	29.4	26.6	32
Total Defaulted Issues	44.4	36.6	149
2004			
Senior Secured	89.2	73.7	8
Senior Unsecured	52.8	47.6	32
Senior Subordinated	55.1	54.2	9
Total Defaulted Issues	62.1	51.6	49
2005			
Senior Secured	89.1	84.5	27
Senior Unsecured	41.2	57.8	42
Senior Subordinated	12.4	19.3	6
Total Defaulted Issues	57.6	61.3	75
2006			
Senior Secured	93.4	96.9	5
Senior Unsecured	67.5	60.0	18
Senior Subordinated	35.7	26.0	9
Total Defaulted Issues	64.3	60.0	32
2007			
Senior Secured	81.8	93.9	5
Senior Unsecured	63.4	74.6	10
Senior Subordinated	56.7	44.4	8
Total Defaulted Issues	66.4	69.1	23
2008			
Senior Secured	32.3	29.5	27
Senior Unsecured	54.4	25.1	70
Senior Subordinated	23.8	7.3	25
Total Defaulted Issues	45.8	19.6	122
2009			
Senior Secured	36.8	25.4	38
Senior Unsecured	36.0	31.0	258
Senior Subordinated	19.2	14.9	48
Total Defaulted Issues	34.1	24.9	344
2010			
Senior Secured	64.3	55.3	15
Senior Unsecured	69.3	81.6	10
Senior Subordinated	28.3	16.9	11
Total Defaulted Issues	56.7	50.0	36

^aSimilar seniorities per issuer collapsed into one observation.
Source: Fitch Ratings, Advantage Data.

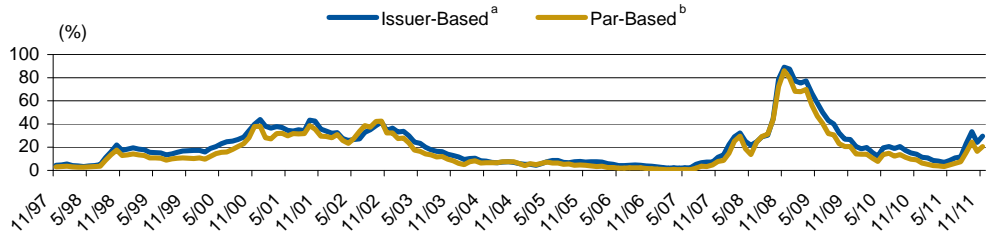
Credit Availability Indicators

Corporate Spreads



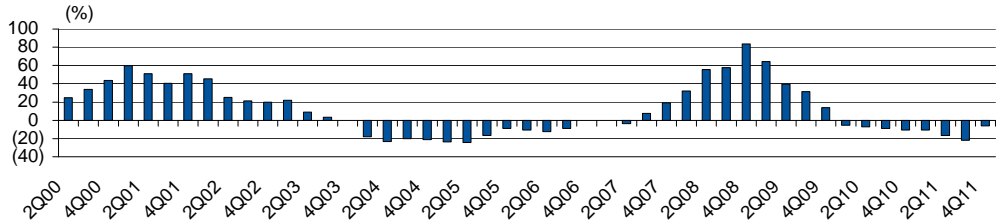
Source: Bank of America Merrill Lynch.

U.S. High Yield Distress Ratio



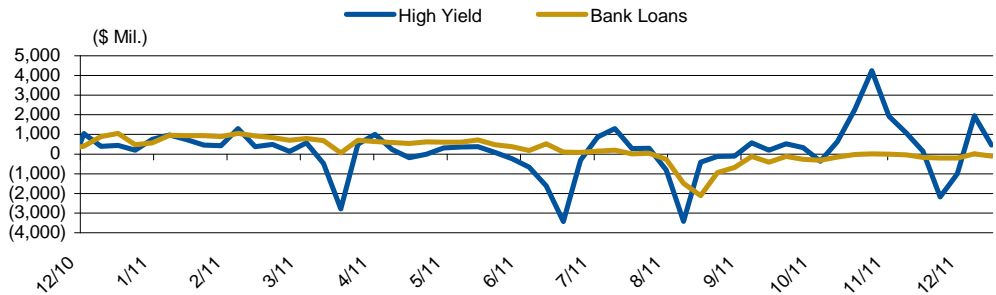
^aCalculated as a proportion of tickers with at least one bond trading at OAS of 1,000 bps or more. ^bCalculated as a proportion of face value (expressed in USD) trading at OAS of 1,000 bps or more.
Source: Bank of America Merrill Lynch.

Federal Reserve Senior Loan Officer Survey — Percentage of Banks Tightening Standards on C&I Loans



Source: Federal Reserve.

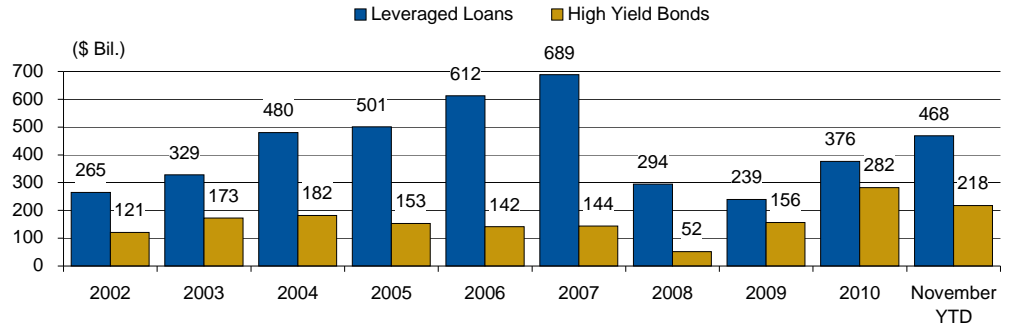
High Yield, Bank Loans Mutual Fund Flows



Source: Lipper FMI.

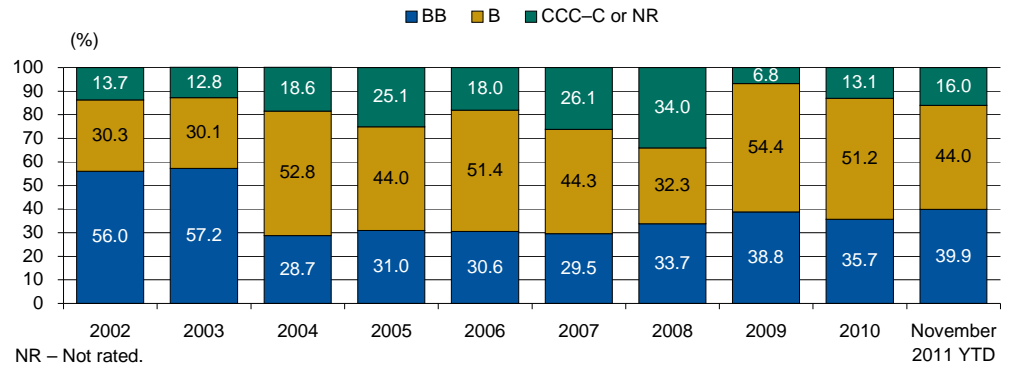
Issuance Trends

High Yield Bond and Loan Issuance



Source: Fitch Ratings, Thomson Reuters LPC, Bloomberg.

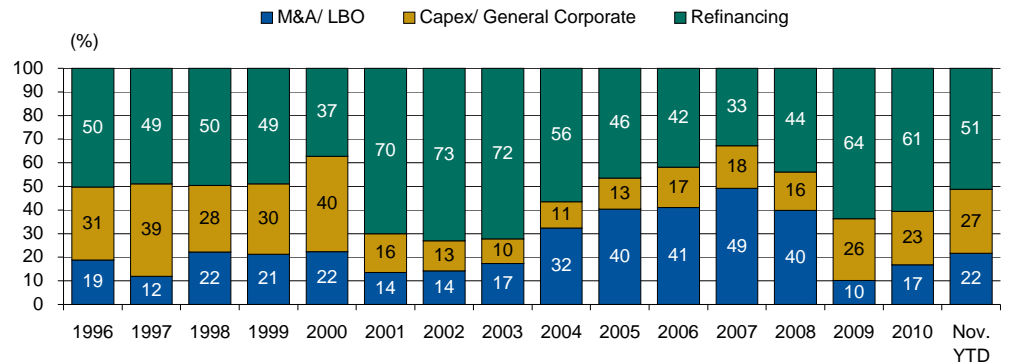
Rating Mix of High Yield Bond New Issuance



NR – Not rated.

Source: Fitch Ratings, Bloomberg.

Global High Yield Use of Proceeds 1996–November 2011



Source: Bank of America Merrill Lynch.

U.S. High Yield Bond New Issuance by Industry

Industry	2010		November 2011 YTD	
	(\$ Bil.)	% of Total	(\$ Bil.)	% of Total
Automotive	4.6	1.6	8.1	3.7
Banking and Finance	31.7	11.2	20.2	9.3
Broadcasting and Media	10.5	3.7	4.9	2.3
Building and Materials	8.9	3.1	8.2	3.7
Cable	4.6	1.6	7.7	3.5
Chemical	15.4	5.4	1.1	0.5
Computers and Electronics	16.8	6.0	7.3	3.3
Consumer Products	8.1	2.9	5.9	2.7
Energy	36.8	13.0	40.4	18.5
Food, Beverage, and Tobacco	5.9	2.1	3.2	1.5
Gaming, Lodging, and Restaurants	10.8	3.8	7.1	3.2
Healthcare and Pharmaceutical	17.7	6.3	22.2	10.2
Industrial/Manufacturing	8.8	3.1	3.8	1.7
Insurance	0.8	0.3	0.2	0.1
Leisure and Entertainment	3.7	1.3	2.9	1.3
Metals and Mining	12.5	4.4	12.3	5.6
Miscellaneous	13.6	4.8	9.5	4.4
Paper and Containers	9.1	3.2	4.6	2.1
Real Estate	8.7	3.1	6.2	2.8
Retail	7.0	2.5	5.1	2.3
Supermarkets and Drug Stores	0.9	0.3	0.3	0.1
Telecommunication	20.1	7.1	19.1	8.8
Textiles and Furniture	2.2	0.8	1.1	0.5
Transportation	12.5	4.4	5.6	2.6
Utilities	10.1	3.6	11.0	5.1
Total Issuance	281.8	100.0	218.0	100.0

Source: Fitch Ratings, Bloomberg.

High Yield Market Profile

Size and Rating Mix — November 2011

Amount Outstanding (\$ Bil.)	No. of Issuers	Rating	% Par Value	Weighted Average Coupon	Median Coupon
1,066.6	1,331	BB	42.5	7.37	7.14
		B	39.0	8.52	8.38
		CCC-C or NR	18.5	9.79	9.63
		All	100.0	8.27	8.00

NR – Not rated.
Source: Fitch Ratings, Bloomberg.

High Yield Industry Composition — November 2011

Fitch Industry	Amount Outstanding (\$ Bil.)	% of Market Volume	% of Sector Volume Rated 'BB'	% of Sector Volume Rated 'B'	% of Sector Volume Rated 'CCC' or NR	Weighted Average Coupon	Median Coupon
Automotive	24.8	2.3	37.2	54.9	7.9	8.09	8.13
Banking and Finance	136.2	12.8	61.1	33.4	5.5	7.14	6.88
Broadcasting and Media	39.9	3.7	22.7	41.1	36.1	8.74	8.50
Building and Materials	41.1	3.9	39.9	44.2	15.9	7.82	7.25
Cable	27.1	2.5	65.0	33.6	1.4	8.16	8.00
Chemical	20.7	1.9	52.4	27.3	20.2	8.28	8.25
Computers and Electronics	46.8	4.4	20.0	36.7	43.3	9.28	8.94
Consumer Products	20.0	1.9	33.4	32.5	34.1	8.57	8.25
Energy	134.9	12.7	47.0	44.1	8.9	7.98	7.75
Food, Beverage, and Tobacco	21.3	2.0	38.9	33.2	27.9	8.79	8.88
Gaming, Lodging, and Restaurants	46.7	4.4	22.4	44.5	33.1	9.09	8.63
Healthcare and Pharmaceutical	70.6	6.6	36.1	51.3	12.6	8.22	8.00
Industrial/Manufacturing	22.9	2.2	57.2	25.7	17.0	8.05	7.75
Insurance	9.8	0.9	81.2	1.8	17.0	8.30	7.80
Leisure and Entertainment	13.0	1.2	18.0	59.7	22.3	9.54	9.25
Metals and Mining	37.4	3.5	51.6	40.3	8.0	7.82	7.75
Miscellaneous	51.4	4.8	19.0	46.2	34.8	9.53	9.13
Paper and Containers	24.0	2.2	37.2	33.9	29.0	8.36	8.50
Real Estate	33.8	3.2	71.9	20.5	7.6	8.46	7.50
Retail	29.8	2.8	47.9	22.4	29.7	8.31	7.80
Supermarkets and Drug Stores	8.2	0.8	0.0	72.3	27.7	8.48	8.00
Telecommunication	107.1	10.0	33.4	44.6	22.0	8.43	8.13
Textiles and Furniture	8.3	0.8	25.8	61.7	12.5	7.60	7.63
Transportation	30.0	2.8	42.8	42.7	14.4	8.65	8.75
Utilities	60.7	5.7	53.5	23.7	22.7	8.31	7.69
Total	1,066.6	100.0	42.5	39.0	18.5	8.27	8.00

NR – Not rated.
Source: Fitch Ratings, Bloomberg.

Concentration of Bonds Rated 'B-' or Lower by Industry

(% of Sector Volume)

Fitch Industry	2009	2010	Nov. 2011
Automotive	74.3	19.9	11.9
Banking and Finance	58.6	17.2	14.8
Broadcasting and Media	66.5	47.1	40.7
Building and Materials	28.3	29.8	27.6
Cable	5.6	11.2	13.3
Chemical	33.4	25.4	27.0
Computers and Electronics	71.3	66.7	56.7
Consumer Products	75.1	45.8	41.4
Energy	19.2	19.8	21.7
Food, Beverage, and Tobacco	36.0	30.1	37.5
Gaming, Lodging, and Restaurants	59.3	57.8	57.7
Healthcare and Pharmaceutical	49.0	39.7	33.7
Industrial/Manufacturing	29.6	27.3	26.3
Insurance	10.9	11.9	17.0
Leisure and Entertainment	50.3	53.4	54.1
Metals and Mining	22.9	23.4	16.4
Miscellaneous	49.4	53.1	59.1
Paper and Containers	37.7	31.9	37.1
Real Estate	47.5	28.0	16.2
Retail	39.6	30.9	36.8
Supermarkets and Drug Stores	52.5	44.3	42.8
Telecommunication	33.1	31.9	31.9
Textiles and Furniture	28.8	19.3	18.7
Transportation	33.9	31.6	28.0
Utilities	33.1	36.2	34.6
Total	41.6	32.1	30.8

Source: Fitch Ratings, Bloomberg.

High Yield Maturity Schedule by Rating: 2011–2014

Rating Bucket	One Month of 2011		2012		2013		2014	
	(\$)	% of Total	(\$)	% of Total	(\$)	% of Total	(\$)	% of Total
		Outstanding		Outstanding		Outstanding		Outstanding
BB	1.1	0.2	22.2	4.9	21.5	4.7	32.6	7.2
B	1.2	0.3	7.4	1.8	13.6	3.3	21.8	5.2
CCC–C	0.2	0.1	2.3	1.3	5.0	2.7	14.7	8.0
NR	0.2	1.3	1.0	7.0	0.9	6.0	1.0	6.8
Total	2.7	0.3	33.0	3.1	41.0	3.8	70.0	6.6

NR – Not rated.

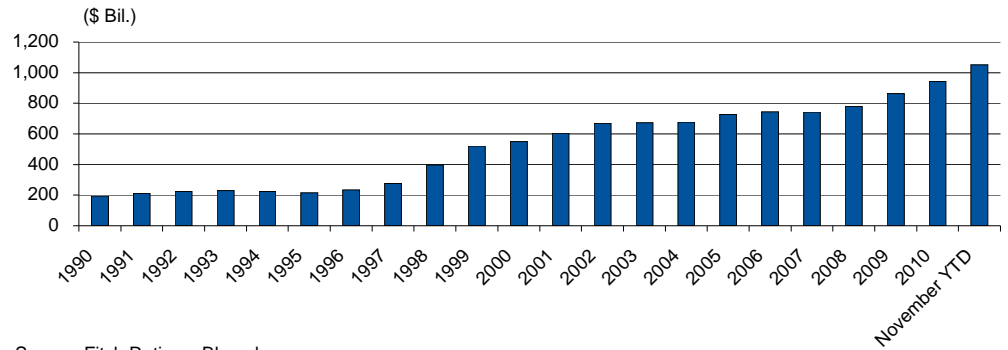
Source: Fitch Ratings, Bloomberg.

High Yield Maturity Schedule by Industry: 2011–2014

Industry	One Month of 2011		2012		2013		2014	
	(\$)	% of Total	(\$)	% of Total	(\$)	% of Total	(\$)	% of Total
		Outstanding		Outstanding		Outstanding		Outstanding
Automotive	0.0	0.0	0.1	0.3	0.0	0.0	1.4	5.5
Banking and Finance	1.7	1.2	14.5	10.6	10.6	7.8	13.7	10.1
Broadcasting and Media	0.0	0.0	0.9	2.2	2.4	6.1	3.0	7.4
Building and Materials	0.0	0.0	1.5	3.7	1.5	3.5	2.7	6.6
Cable	0.0	0.0	1.1	4.2	0.5	1.8	2.8	10.2
Chemical	0.1	0.4	0.6	2.9	0.4	1.9	1.0	4.7
Computers and Electronics	0.0	0.0	0.1	0.3	1.6	3.4	1.6	3.4
Consumer Products	0.0	0.0	0.1	0.5	0.4	1.7	0.2	0.9
Energy	0.4	0.3	3.4	2.5	1.3	1.0	6.3	4.7
Food, Beverage, and Tobacco	0.0	0.0	0.2	0.8	0.5	2.4	2.9	13.5
Gaming, Lodging, and Restaurants	0.1	0.3	1.9	4.1	3.3	7.0	4.7	10.1
Healthcare & Pharmaceutical	0.1	0.1	1.0	1.4	1.3	1.9	2.7	3.8
Industrial/Manufacturing	0.0	0.0	0.2	0.7	1.3	5.7	1.7	7.2
Insurance	0.0	0.0	0.1	1.3	0.2	2.4	0.8	7.7
Leisure and Entertainment	0.0	0.0	0.3	2.2	0.2	1.8	0.9	7.3
Metals and Mining	0.1	0.3	0.8	2.2	1.1	2.9	0.5	1.3
Miscellaneous	0.0	0.0	0.5	0.9	1.9	3.8	4.5	8.8
Paper and Containers	0.0	0.0	0.2	1.0	1.6	6.8	2.8	11.7
Real Estate	0.0	0.0	1.6	4.7	2.2	6.4	2.8	8.2
Retail	0.0	0.0	0.5	1.7	1.1	3.6	1.7	5.8
Supermarkets and Drug Stores	0.0	0.0	0.3	3.4	0.2	2.2	0.5	6.0
Telecommunication	0.0	0.0	2.6	2.4	4.4	4.1	5.8	5.4
Textiles and Furniture	0.1	1.0	0.3	4.0	0.0	0.0	1.3	15.2
Transportation	0.2	0.7	0.2	0.6	1.3	4.5	1.0	3.4
Utilities	0.0	0.0	0.0	0.0	1.6	2.6	3.0	4.9
Total	2.7	0.3	33.0	3.1	41.0	3.8	70.0	6.6

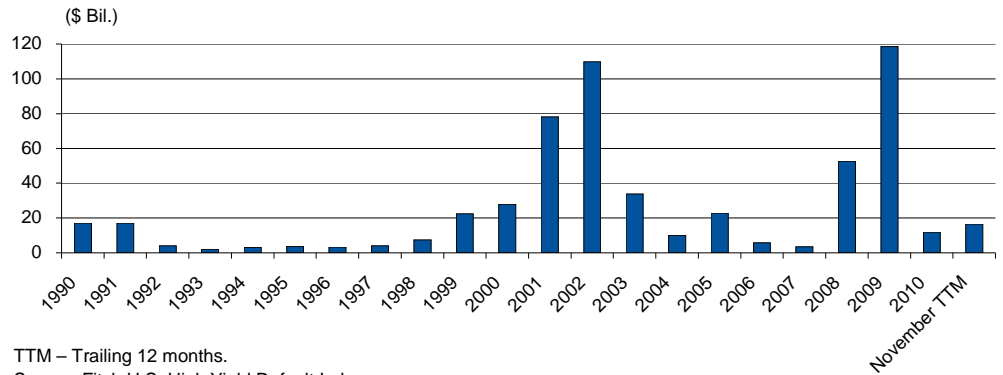
Source: Fitch Ratings, Bloomberg.

U.S. High Yield Market Growth — 1990–November 2011



Source: Fitch Ratings, Bloomberg.

U.S. High Yield Par Defaults — 1990–November 2011



TTM – Trailing 12 months.

Source: Fitch U.S. High Yield Default Index.

High Yield Industry Composition: 2000–November 2011

(%)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Nov. 2011
Automotive	1.6	2.2	1.8	2.4	2.6	4.3	5.2	4.7	4.3	3.5	1.8	2.1
Banking and Finance	6.9	7.5	4.0	3.6	3.5	9.6	14.0	13.1	13.1	12.7	15.1	14.2
Broadcasting and Media	5.2	4.9	4.4	4.4	4.0	3.8	4.6	5.4	5.7	5.1	3.8	3.7
Building and Materials	2.7	2.7	2.5	2.7	2.9	3.0	3.0	2.9	3.8	4.0	3.6	3.6
Cable	7.0	6.5	7.2	4.1	4.7	4.2	4.1	3.9	3.7	4.0	2.6	2.4
Chemicals	2.7	3.2	3.3	4.0	4.3	3.6	3.0	2.4	1.9	1.8	2.2	2.2
Computers and Electronics	3.8	3.0	3.1	3.7	4.4	4.6	4.6	4.8	5.1	4.9	4.4	4.5
Consumer Products	1.7	1.4	1.2	1.3	1.2	1.2	1.3	1.1	0.9	0.8	1.1	1.6
Energy	5.9	4.9	6.7	10.5	10.9	9.5	9.3	9.2	9.1	9.2	10.5	11.8
Food, Beverage, and Tobacco	2.5	1.9	1.9	2.7	2.8	2.4	2.4	2.4	2.1	2.0	2.1	2.0
Gaming, Lodging, and Restaurants	4.4	4.3	4.9	5.7	5.7	4.7	4.9	5.2	5.4	5.3	4.7	4.5
Healthcare and Pharmaceutical	4.1	3.6	3.5	4.7	4.5	4.4	4.6	5.2	5.5	5.5	6.1	6.4
Industrial/Manufacturing	3.2	3.7	3.5	3.7	3.6	3.4	2.8	2.8	2.5	2.3	2.2	2.1
Insurance	0.7	0.9	1.3	0.8	0.8	0.8	0.7	0.9	1.0	1.5	1.7	1.2
Leisure and Entertainment	1.9	1.4	1.2	1.6	1.7	1.3	1.3	1.3	1.1	1.0	1.1	1.2
Metals and Mining	3.2	2.6	2.2	2.3	2.7	2.9	2.8	2.8	3.0	3.2	3.1	3.0
Miscellaneous	6.7	5.9	6.1	6.2	5.0	3.9	4.4	5.0	4.7	4.5	4.7	4.7
Paper and Containers	2.8	2.6	3.1	4.1	4.4	4.0	4.0	3.8	3.6	3.8	3.5	3.0
Real Estate	1.3	1.1	1.2	1.4	1.4	1.2	1.4	2.1	2.7	2.9	2.6	2.9
Retail	2.6	2.8	3.3	2.8	2.5	2.5	2.5	2.7	3.3	4.1	4.2	3.2
Supermarkets and Drug Stores	1.4	1.1	1.1	1.3	1.4	1.3	1.5	1.8	1.3	0.9	0.9	0.8
Telecommunications	18.5	19.6	20.5	12.1	11.1	9.9	8.3	7.5	8.1	9.1	9.0	9.3
Textiles and Furniture	1.5	1.4	1.3	1.4	1.3	1.2	1.0	0.8	0.6	0.8	0.9	0.8
Transportation	3.3	3.6	3.7	3.3	3.0	2.9	1.9	1.8	1.4	1.7	2.4	2.9
Utilities	4.2	7.3	6.9	9.0	9.6	9.4	6.4	6.4	6.0	5.5	5.6	5.8
Total Market	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Based on average outstandings per period.

Source: Fitch Ratings, Bloomberg.

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