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Standard & Poor's Releases Enhanced Recovery Rating Scale And Issue Rating Framework

NEW YORK (Standard & Poor's) May 30, 2007—Standard & Poor's Ratings Services today released changes to its recovery rating scale and issue rating framework and announced its plans for extending recovery ratings into other areas of the debt market, including unsecured corporate, sovereign, and financial service issues in the article titled "Recovery Analytics Update: Enhanced Recovery Scale And Issue Ratings Framework," published today on RatingsDirect.

The new recovery rating scale (see list below) includes an additional rating category (Recovery Rating '6') at the low end of the scale. This revised scale provides greater differentiation of recovery prospects up and down the scale, from the most well-secured instruments through the least-protected.

REVISED RECOVERY RATINGS, RANGES, AND ISSUE RATINGS FOR SPECULATIVE-GRADE ISSUERS

Recovery Rating	Description of Recovery	Range	Issue Rating*
1+	Highest expectation, Full recovery	100%	+3 notches
1	Very high recovery	90%-100%	+2 notches
2	Substantial recovery	70%-90%	+1 notch
3	Meaningful recovery	50%-70%	0 notches
4	Average recovery	30%-50%	0 notches
5	Modest recovery	10%-30%	-1 notch
6	Negligible recovery	0%-10%	-2 notches

*Indicates issue rating "notches" relative to Standard & Poor's issuer credit rating.

The rollout of the new revised recovery and issue ratings to some 2,200 secured instruments that have an existing recovery rating is scheduled for June 7, 2007. This part of the rollout covers rated secured debt of speculative-grade corporate and financial service issuers in the U.S., Canada, Europe, Australia, and South Africa. Other jurisdictions will be added by year-end 2007, continuing into 2008 as we complete relevant insolvency regime and restructuring practice research on a country-by-country basis.

We will announce recovery ratings on speculative-grade sovereigns on June 12, 2007, and recovery ratings on speculative-grade unsecured issues will be announced in the fourth quarter of 2007.

"Recovery is particularly important now as the market continues to test new ground in relaxing credit standards," said Bill Chew, Managing Director and Head of Recovery Rating Analytics. "It is just a matter of time before some of the many low-rated, weakly structured deals that are in the market now end up in insolvency, where the focus will be heavily on recovery prospects."

"The market clearly wants to be able to 'deconstruct' the risks of default and loss as components of the issue rating, which facilitates the use of valuation and risk management techniques prevailing in the credit markets," explained Laura Feinland Katz, Managing Director and member of Standard & Poor's Analytics Policy Board. "Investors will now have a clear issuer credit rating that denotes default risk, a recovery rating that reflects expected recovery, and an issue rating that combines the two in a consistent, transparent manner."

"It is important to note that the rating changes we will announce June 7 are due chiefly to the changes we have made in the scale and rating framework, and not to a change in credit quality or default probability," Mr. Chew said.

As indicated in our October 2006 Request for Comment, when we proposed revising the recovery rating scale and issue rating framework, and in our April 2007 update, the changes at this time apply only to secured debt and will be largely upgrades. Approximately two-thirds of currently rated speculative-grade secured issues will be upgraded, most by one notch, as a result of the changes to the recovery scale and issue rating framework, a handful will be downgraded, and about a third will remain unchanged.

"Most of the secured deals we rate currently have high recovery ratings, as they are the best-protected deals in the market, so it isn't surprising that a majority of the changes we will announce next week are upgrades," Mr. Chew said. "Later this year, when we introduce recovery ratings on the additional 2,200 speculative-grade unsecured and subordinated debt that we rate, we will expect to see the lower end of the recovery rating spectrum fill out substantially.

Standard & Poor's market research and extensive dialogue with market participants prior to making changes to its recovery ratings scale supported the changes announced today, as well as Standard & Poor's fundamental approach to recovery ratings first introduced to the debt market almost four years ago.

"First and foremost," Ms. Feinland Katz said, "the market endorsed our decision to continue, and strengthen, our fundamental approach to recovery analysis that provides the specific, granular recovery opinion that we believe sophisticated investors want and have come to expect."

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.