



Fitch Completes U.S. Tobacco Portfolio Review

Fitch Ratings-New York-14 August 2013: Fitch Ratings has completed its annual review of tobacco ABS ratings accounting for the amount of Master Settlement Agreement (MSA) payment received by each trust in 2013.

For 2013, the aggregate MSA payment was 21.56% higher than the amount in 2012. This increase is due to the Non-Participating Manufacturer dispute settlement payment made by the tobacco companies to 20 settling states and territories. This payment represents a one-time increase in the amount of the MSA payment and was stripped out of the amount allocated to each trust for Fitch's modeling purposes. Instead, Fitch assumed that the settling states experienced the same rate of decline, approximately -0.03%, as the non-settling states. Since this settlement payment is cash positive, no downgrades will be taken on any bonds issued by settling states or counties.

The full benefit of the settlement payment will be seen next year at which point the ratings will be reevaluated.

There are 31 downgrades taken on bonds from non-settling states. Although the MSA payment was stable year-over-year, many of these downgrades result from having model indicated grades which were below the current rating for two consecutive years. Three ratings from Suffolk Tobacco Asset Securitization Corporation, Tobacco Settlement Asset-Backed Bonds, Series 2008 are being upgraded since the trust is now receiving a higher allocation of the county's MSA payment. The remaining 200 outstanding ratings are being affirmed.

Buckeye Tobacco Settlement Financing Authority, 2007 (Ohio), Golden State Tobacco Securitization Corporation, United States, Series 2007-1 and Nassau County Tobacco Settlement Corporation, Tobacco Settlement Asset-Backed Bonds, Series 2006 continue to have debt service reserve balances below their required levels. As a result, Fitch does not give them the benefit of a rating one notch above the model indicated grade.

Fitch uses its breakeven model to analyze tobacco performance. The breakeven model assesses how much the MSA payment received by the trust could decline for each bond to pay at the legal final maturity date. The amount of the latest MSA payment that the transaction has received, the capital structure, the reserve account, and the bond's legal final dates are the key inputs to the model.

Since the tenor of these transactions is typically long and the cash flows can be unpredictable, qualitative adjustments may be taken to avoid rating volatility by requiring two years of consecutive model outputs in order to downgrade to the model implied output. However, if more than one notch difference exists between the current rating and the model implied rating, the bond will be downgraded to one notch above the model output. Tobacco ratings are capped at 'BBB+sf', based on Fitch's opinion of the strength of the tobacco industry. All bonds with model outputs 'bbb+' and below are on Outlook Negative to address concern over a future deterioration in cash flows.

See the web file titled 'Fitch Completes U.S. Tobacco Portfolio Review' for a full list of breakeven multiples.

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