



## Announcement: Moody's Places US Aaa Government Bond Rating and Related Ratings on Review for Possible Downgrade

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New York, July 13, 2011 -- Moody's Investors Service has placed the Aaa bond rating of the government of the United States on review for possible downgrade given the rising possibility that the statutory debt limit will not be raised on a timely basis, leading to a default on US Treasury debt obligations. On June 2, Moody's had announced that a rating review would be likely in mid July unless there was meaningful progress in negotiations to raise the debt limit.

In conjunction with this action, Moody's has placed on review for possible downgrade the Aaa ratings of financial institutions directly linked to the US government: Fannie Mae, Freddie Mac, the Federal Home Loan Banks, and the Federal Farm Credit Banks. We have also placed on review for possible downgrade securities either guaranteed by, backed by collateral securities issued by, or otherwise directly linked to the US government or the affected financial institutions.

### RATIONALE FOR REVIEW

The review of the US government's bond rating is prompted by the possibility that the debt limit will not be raised in time to prevent a missed payment of interest or principal on outstanding bonds and notes. As such, there is a small but rising risk of a short-lived default.

Moody's considers the probability of a default on interest payments to be low but no longer to be de minimis. An actual default, regardless of duration, would fundamentally alter Moody's assessment of the timeliness of future payments, and a Aaa rating would likely no longer be appropriate. However, because this type of default is expected to be short-lived, and the expected loss to holders of Treasury bonds would be minimal or non-existent, the rating would most likely be downgraded to somewhere in the Aa range.

The specific rating that would be assigned at the conclusion of the review once such a default is cured would depend on (1) the speed with which the default is cured; (2) an assessment of the likely effect on future borrowing costs; and (3) whether there is a change in process for raising the debt limit that would preclude another default. A return to a Aaa rating would be unlikely in the near term, particularly if there were no progress on the third consideration.

While the debt limit has been raised numerous times in the past, and sometimes the issue has been contentious, bond interest and principal have always been paid on time. If the debt limit is raised again and a default avoided, the Aaa rating would likely be confirmed. However, the outlook assigned at that time to the government bond rating would very likely be changed to negative at the conclusion of the review unless substantial and credible agreement is achieved on a budget that includes long-term deficit reduction. To retain a stable outlook, such an agreement should include a deficit trajectory that leads to stabilization and then decline in the ratios of federal government debt to GDP and debt to revenue beginning within the next few years.

Moody's does not take a position on what measures should be included in any deficit reduction package. Instead, it is the resultant deficit and debt trajectories that are relevant to the rating and its outlook.

### RELATED ISSUES

In addition to the financial institutions directly linked to the US government, Moody's has also placed on review for possible downgrade pre-refunded municipal bonds (which are invested in government or related securities), certain housing bonds that are supported or guaranteed by the US government, and other municipal ratings that are directly linked to the rating of the US government. Bonds issued by the governments of Israel and Egypt that are guaranteed by the US government were also placed on review for possible downgrade.

Structured finance securities that hold government-linked debt as their primary collateral have also been placed on review for downgrade. These include transactions defeased by US Treasury strips, transactions backed by FFELP government guaranteed student loans, and US RMBS backed by government agency mortgages.

### FURTHER INFORMATION

Moody's is also publishing today its annual report on the United States, detailing the factors relevant to the analysis of the government bond rating. The report, United States of America: Credit Analysis, can be found at

[www.moodys.com/USRatingActions](http://www.moodys.com/USRatingActions).

The rationales and expected timing for today's rating reviews on the US government's rating and directly related credits were previously discussed in Moody's Updates on Rating Implications of US Debt Limit, Long-Term Budget Negotiations and Implications of a US Rating Action for Other Aaa Issuers.

For a complete list of affected securities and additional analysis, please visit [www.moodys.com/USRatingActions](http://www.moodys.com/USRatingActions).

## REGULATORY DISCLOSURES

Please see the rating methodologies tab on the Credit Policy page on [moodys.com](http://moodys.com) for the relevant methodology for each action.

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