



Insight beyond the rating.

United States of America

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Ratings

Issuer	Debt Rated	Rating	Trend
United States of America	Long-Term Foreign Currency Debt - Issuer Rating	AAA	Stable
United States of America	Long-Term Local Currency Debt - Issuer Rating	AAA	Stable

Rating Rationale

DBRS Inc. (DBRS) has assigned AAA issuer ratings on the long-term foreign and local currency debt of the United States of America. The trend on both ratings is Stable. The ratings reflect the underlying strengths of the U.S. economy, which is highly productive and diversified, flexible in response to external shocks and at 27% of global GDP, the world's largest economy. Further supporting the ratings are the country's institutional strength and the preeminence of the U.S. dollar as the world's largest reserve currency, facilitating low financing costs and a high degree of funding flexibility. These attributes give the Treasury a very high capacity to service debt, even during periods of high investor risk aversion.

However, starting with the 2007-2009 credit crisis and continuing to the current economic recovery, macroeconomic fundamentals have come under significant downward pressure. The chain of events that began with the overleveraging of household and financial sector balance sheets, coupled with lax lending regulation and supervision, led to the collapse of the housing market, severe stress on financial institutions, and contributed to the global recession of 2008-2009. Subsequent government initiatives to restore health to the financial sector significantly increased the government's contingent liabilities.

Add to these factors a collapse in tax revenues plus rising spending from automatic stabilizers and some discretionary outlays, and the result has been a sharply higher central government deficit, which peaked at 10% of GDP in 2009, and a level of indebtedness that is expected to peak at 103% of GDP in 2013, well above those of other AAA-rated countries. Protracted policy discussions through August 2011 over how to cut the deficit and create the conditions for a faster restoration of growth, led to severe market volatility. (Continued on page 2)

Rating Considerations

Strengths

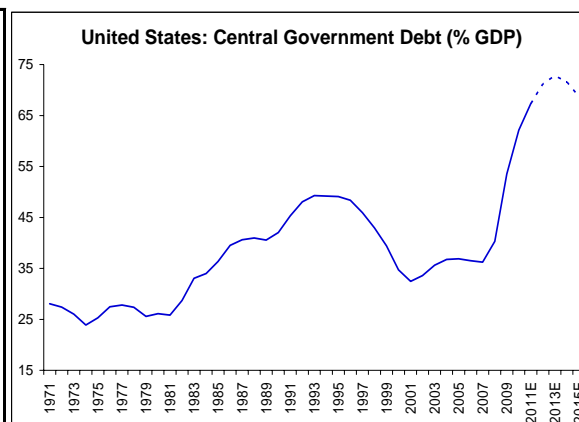
- (1) Large, diversified and productive economy
- (2) Predominance of U.S. dollar as reserve currency
- (3) Fiscal flexibility
- (4) Strong, stable institutions

Challenges

- (1) High fiscal deficit and contingent liabilities
- (2) Reducing public debt
- (3) Weak housing market and financial sector
- (4) Uneven employment dynamics

Summary Statistics

For the year ended December 31*	2009	2010	2011E	2012E
Nominal GDP (US\$ billions)	14,119	14,660	15,238	15,817
GDP per capita (US\$)	45,349	46,860	48,666	50,273
Real GDP growth (% chg yoy)	-2.6%	2.9%	2.4%	2.6%
Unemployment rate	9.3%	9.6%	8.9%	8.7%
Inflation (year end, %)	-0.3%	1.6%	2.9%	1.5%
Current account balance (% GDP)	-2.7%	-3.2%	-3.2%	-2.8%
Central gov't balance (% GDP)	-10.0%	-8.9%	-8.5%	-6.2%
General gov't balance (% GDP)	-11.5%	-10.7%	-10.9%	-7.6%
GG primary balance (% GDP)	-10.2%	-9.4%	-9.4%	-6.1%
GG gross public debt (% GDP)	84%	93%	98%	102%



*Fiscal & debt data: fiscal year ended Sept 30. Source: CBO, OMB, IMF, DBRS. 2011-2015 projections: August 2011 CBO.



Rating Rationale (Continued from page 1)

Despite these pressures, DBRS is encouraged by an eleventh hour fiscal agreement struck on August 2, 2011, which demonstrated a renewed commitment to reducing the deficit and stabilizing debt-to-GDP over the medium term. The Obama administration meanwhile is focusing on creating jobs and fostering real economic activity in the near term. DBRS believes that the August 2 Budget Control Act (the act) is likely to result in a large fiscal adjustment. The act requires \$917 billion (approximately 4.5% of GDP) in deficit reduction measures between 2013 and 2021, and raises the debt ceiling by \$900 billion. The act also aims to identify an additional \$1.5 trillion in measures, which, once approved by a Joint Select Committee on Deficit Reduction, would be immune from amendments or filibuster.

If the Joint Select Committee fails to identify savings of at least \$1.2 trillion by November 23, 2011, then Congress will grant a \$1.2 trillion increase in the debt ceiling and automatic across-the-board spending cuts, or “sequestration”, of \$1.2 trillion, to be equally divided between security and non-security programs. The cuts would apply to mandatory and discretionary spending from 2013-2021, and include Medicare providers. Either the original measures identified by the Joint Select Committee or the automatic procedures must be approved by December 23, 2011. The process of approving sequestration would be similar to the Base Realignment and Closure (BRAC) commission process created by Congress, which successfully closed politically sensitive U.S. domestic military installations by decree, sparing politicians from the consequences of the closures.

DBRS believes that implementation risk will remain significant. If fully executed, the renewed commitment to fiscal adjustment should succeed in stabilizing debt-to-GDP. Should this occur, it would further underpin existing rating levels. Longer term, addressing structural pressures from Social Security, Medicare and Medicaid will be important to maintaining a sustainable fiscal position. Events that could result in the assignment of a Negative trend include the inability to effectively execute the Joint Select Committee’s fiscal reduction measures, or the alternative sequestered measures. If the U.S. economic outlook sharply deteriorates over the coming months, a strong medium-term fiscal consolidation plan will be all the more urgent.

Rating Considerations Details

Strengths

(1) **Large, diversified and highly productive economy.** With gross domestic product at \$14.7 trillion, the U.S. economy is the world’s largest. In the two decades prior to the 2008-2009 recession, economic growth was strong and relatively stable, expanding at an average annual rate of 3.0% – faster than most other advanced industrialized economies. The growth outlook for 2011 and 2012 may in fact underperform recent forecasts. The nonpartisan Congressional Budget Office (CBO) projects 2011 and 2012 real GDP growth at 2.4% and 2.6%, respectively. However, DBRS believes that longer term growth will return to close to pre-crisis levels.

(2) **Predominance of the U.S. dollar as a reserve currency.** Since World War II, the U.S. dollar has been the most traded currency in foreign exchange markets, and at approximately 60% of global reserves, is the main reserve asset held by foreign central banks and finance ministries. This provides significant advantages, including reduced financing costs and funding flexibility.

(3) **Fiscal flexibility.** The US retains considerable room to maneuver on both the expenditure and revenue sides of the budget. This is aided by low funding costs, a low tax intake and high discretionary spending. Given political willingness, tax revenues could be raised and discretionary spending cut with relative ease.

(4) **Strong and stable institutions.** U.S. institutional strength is apparent in the checks and balances of government, the legal system, the credibility of fiscal and monetary institutions, the efficiency of the private sector and overall transparency.

Challenges

(1) **High fiscal deficit and rising contingent liabilities.** The central government deficit is high at 8.9% of GDP in 2010, and fiscal adjustment has been delayed by the debate over how to cut the deficit amid an anemic economic recovery. In addition to the deficit, DBRS is concerned about underlying structural fiscal trends. Longer term outlays for Social Security, Medicare and Medicaid, which will likely account for 44% of federal non-interest spending in 2011, will continue to rise as a percentage of GDP and consume a growing share of the federal budget.

(2) **Reducing public debt.** In 2010, central government debt was 62.1% of GDP, while general government debt was 93.2% of GDP in 2010, the difference being state and local government debt. The CBO projects that central government debt will stabilize at 72.8% of GDP in 2013, depending on the scope of this year's fiscal adjustment. Longer term, Social Security, Medicare and Medicaid will need to be rationalized in line with revenues to stabilize future deficits and public debt to GDP. DBRS expects that these issues will be addressed in time.

(3) **Weak housing market and financial sector.** Starting in 2007, household balance sheets were severely affected by the decline in housing values, and repairing the damage by increasing savings looks set to continue, thus weakening the economic recovery. Bank credit to the non-corporate business sector, which relies on mortgage financing, has yet to grow. The banking sector continues to face headwinds from weakness in housing prices and problems in the mortgage foreclosure process, as well as from uncertainty surrounding the regulatory framework and its cost implications.

(4) **Uneven employment dynamics.** The U.S. labor market is flexible, there are few disincentives to participate, and until the crisis, employment rates over the last 20 years had been comparatively high and stable. The openness of the economy and few barriers to entry and exit have created one of the world's most flexible and well-functioning labor and product markets, and this allows consumers to benefit from relatively low prices and a wide choice of goods and services by fostering competition. This also encourages firms to cut production costs, increase output and lower prices. However, the labor market has performed poorly in the current economic climate, due partly to weakness in domestic demand, resulting in high unemployment and more workers leaving the labor force than in past recoveries.

Fiscal Management and Policy

Until the onset of the credit crisis in 2007, the United States maintained a fairly responsible fiscal position, generating budget surpluses or small deficits. Between 1971 and 2007, the deficit averaged 2.5% of GDP. The crisis brought this generally good fiscal performance to an abrupt halt, causing a sharp deterioration in the public sector balance sheet. The central (federal) government deficit increased from 1.2% of GDP in 2007 to 10% of GDP in 2009, while the general government deficit, which adds the consolidated state and local government deficits to the central government deficit and which DBRS uses for international comparisons, rose from 1.8% of GDP in 2007 to 11.5% of GDP in 2009.

Between 2007 and 2009, central government revenues declined by 3.6% of GDP, from 18.5% of GDP to 14.9% of GDP. Over this same period, expenditures increased by 5.3% of GDP, from 19.6% of GDP to 25% of GDP. Four factors appear to be largely responsible for this deterioration: (1) a decline in tax revenues, especially income tax revenues, as the 2008-2009 recession took hold, job losses mounted and wages stagnated, (2) increases in short-term mandatory (direct) spending, especially income security,¹ (3) increases in discretionary outlays, especially domestic programs and defense, and (4) increases in long-term mandatory spending, especially Social Security, Medicaid and Medicare.

The deterioration in the deficit therefore derived not only from the direct effects of the recession, and federal and local government efforts to shelter the unemployed from the crisis, but also from higher spending on both discretionary items and mandatory entitlement programs. In addition to these immediate budgetary pressures, contingent liabilities on public finances have risen. Following the collapse of the housing market, the stress

¹ Includes unemployment compensation, Supplemental Security Income, the refundable portion of the earned income and child tax credits, Supplemental Nutrition Assistance Program (formerly Food Stamps,) family support, child nutrition and foster care.

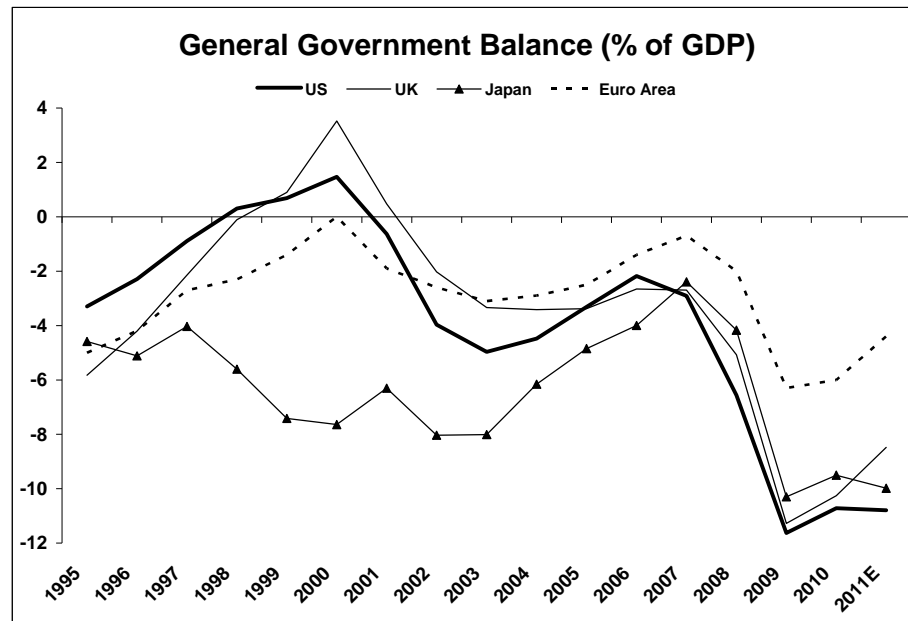
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on the financial sector and the ensuing recession, the Treasury and Federal Reserve provided financial support to restore health to the real estate sector, the financial sector and to a lesser extent the corporate sector. This support falls into three categories:

- 1) The Troubled Asset Relief Program (TARP), the vast majority of which was bank recapitalizations and asset guarantees: \$245 billion, of which \$131 billion was outstanding as of May 2011.
- 2) Federal Reserve facilities in the form of asset purchases: \$2,350 billion, of which \$900 billion was outstanding as of May 2011; AIG and Bear Stearns-related programs: \$195 billion, of which \$64 billion was outstanding as of May 2011; and the Term Asset-Backed Securities Lending Facility or TALF: \$48 billion, of which \$14 billion was outstanding as of May 2011.
- 3) Support for government-sponsored enterprises, which was mainly in the form of senior preferred equity injections to mortgage vehicles Fannie Mae and Freddie Mac: \$156 billion, all of which was outstanding as of March 2011.

Exhibit 1



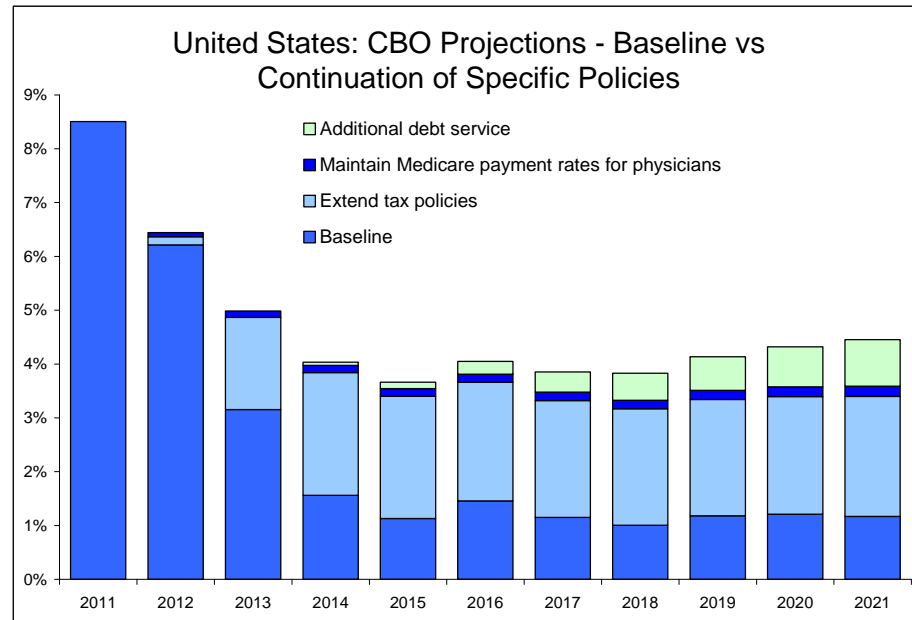
Source: BEA, OBM, Eurostat, IMF, DBRS

However, these liabilities are being wound down and at close to 8.4% of 2010 GDP do not pose a huge burden to the public sector balance sheet. A larger concern is the high and rising long-term structural fiscal pressures associated with the aging and retirement of the baby boom generation. Following World War II, between 1946 and 1964, the U.S. experienced a rapid increase in the birth rate as American soldiers returned from the war. As a result, the number of people aged 65 or older will increase by approximately one-third between 2011 and 2021, causing this segment of the population to increase from 13% to 17% of the total population. After 2021, this percentage will increase even more. Furthermore, the 2010 health care legislation is likely to increase the number of beneficiaries of federal health care programs, and the cost of these programs per beneficiary is likely to continue to rise. Outlays for Social Security, Medicare and Medicaid are likely to continue to rise as a percentage of GDP and to consume a growing share of the federal budget.

Since 2009, there has been some improvement in the central government deficit. The deficit declined to 8.9% of GDP in 2010, and the CBO projects it will reach 8.5% of GDP in 2011. However, the U.S. budget process has few binding fiscal rules, and the government has still to articulate the specifics of a medium-term plan to reduce the deficit. Encouragingly, on August 2, 2011, the government enacted the Budget Control Act of 2011, which specifies \$917 billion (approximately 4.5% of GDP) of deficit reduction measures between 2013 and 2021, and raises the debt ceiling by \$900 billion. \$21 billion (0.13% of GDP) of the \$917 billion will be applied to the 2012 budget. The act also created a 12-member bipartisan Joint Select Committee on Deficit Reduction to propose further deficit reduction measures totaling at least \$1.5 trillion (approximately 7.4% of

2010 GDP) over 2013-2021. To pass, this legislation requires approval from 7 of the 12 members. Once approved, it would be immune from amendments or filibuster.

Exhibit 2



Source: CBO, DBRS

However, DBRS remains concerned about implementation risk. If the Joint Select Committee fails to identify savings of at least \$1.2 trillion by November 23, 2011, then Congress will grant a \$1.2 trillion increase in the debt ceiling in exchange for triggering automatic, across the board spending cuts, or “sequestration”, of \$1.2 trillion, to be equally divided between security and non-security programs. The cuts would apply to both mandatory and discretionary spending programs from 2013-2021, and would include Medicare providers. Importantly, Social Security, Medicaid and Medicare beneficiaries, civil and military employee pay, and veterans pay would be exempt. Either the original measures identified by the Joint Select Committee, or the automatic procedures must be approved by December 23, 2011.

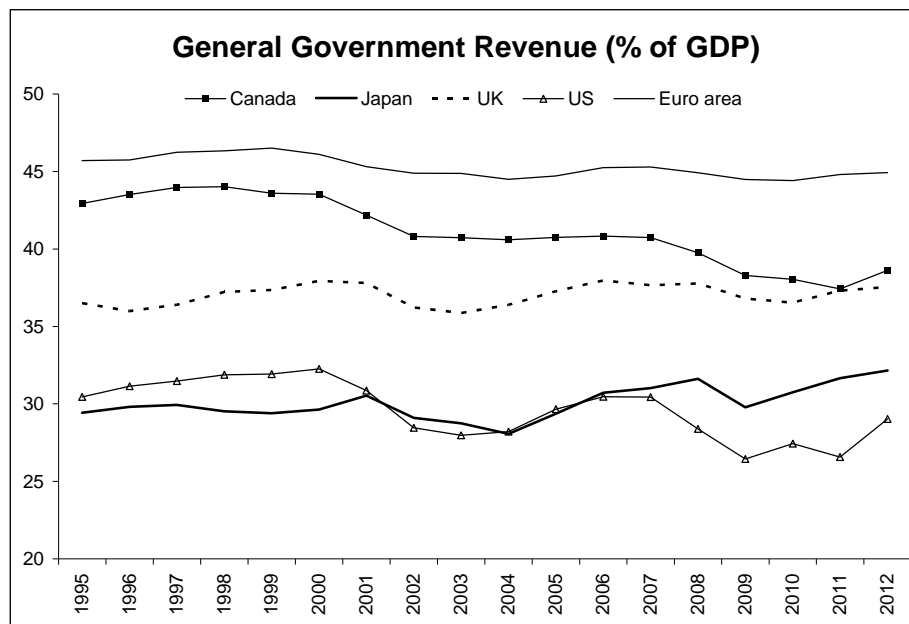
The Congressional Budget Office projects two distinct scenarios. A baseline scenario incorporates the total \$2,417 billion in deficit reduction, which would reduce deficits to an average of 1.8% of GDP between 2012 and 2021, and lower public debt to 61% of GDP by 2021. The deficit would decline from 8.5% of GDP in 2011 to 6.2% of GDP in 2012, 3.2% in 2013 and 1.6% of GDP in 2014. The division between outlays and revenues has still to be specified. Spending would be reduced by more than the increase in the debt limit. No tax increases or other forms of revenue increases above current laws are included in the bill. The following measures would account for this reduction:

- The expiration of certain tax provisions and exemptions, and a gradual growing economy would increase revenues by 5% of GDP between 2011 and 2014. Income tax, estate tax and gift tax provisions would expire at the end of 2012, as current law schedules. Lower income tax rates of 2001 and 2003, especially on annual taxable income for couples earning \$250,000 or more, and for individuals earning \$200,000 or more, would be scrapped. Certain provisions of the 2010 tax act, including extensions of lower rates and expanded credits and deductions originally enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001, and the Jobs and Growth Tax Relief Reconciliation Act of 2003, also expire at the end of 2012.
- The exemption amount for the alternative minimum tax, which was increased through 2011, would be extended at its higher amount for wealthy as well as middle income taxpayers, and would not be indexed for inflation after 2011. Non-refundable personal credits would be extended beyond 2011.

- Between 2011 and 2014, outlays would decline by 1.7% of GDP. Lower expenditures from the American Recovery and Reinvestment Act, the extensions of emergency unemployment compensation spending, and the one year reduction in the payroll tax would expire at the end of 2011. There would also be new caps on discretionary spending. Medicare payment rates for physicians' services would be sharply reduced at the end of 2011.

The CBO projects an alternative scenario in which some of the changes specified in current law do not occur and current policies are continued instead. In this scenario, average deficits from 2013-2021 would be 4.3% of GDP. Together with higher debt service costs, these deficits would increase central government debt to 82% of GDP by 2021.

Exhibit 3



Source: BEA, IMF World Economic Outlook, DBRS

Debt and Liquidity

From late-2010 to mid-2011, U.S. political leaders held a debate over how to reduce the deficit over the medium term while fostering a return to faster, more sustainable economic growth. The statutory limit on debt, or debt ceiling, which historically had been raised as needed in procedural legislation, was this time held up until a deal could be struck between the various parties. An agreement was reached on August 2 with the enactment of the Budget Control Act, the day before the stock of debt was estimated to reach the debt ceiling. DBRS believes that the coming fiscal consolidation under the Act is likely to reduce the deficit and help stabilize debt to GDP. However, strong downward pressure on the rating would almost certainly ensue if a repeat of the debt ceiling debate occurred, especially if there is a weaker than expected economic recovery.

The U.S. debt market is characterized by three unique features. First, the U.S. federal government is the largest debt issuer in the world and the most liquid. More than \$565 billion is traded daily by primary dealers, compared to \$420 billion in daily trading in global equity trading. In the secondary market, as of July 2011, there was \$9.4 trillion or 62% of GDP in marketable debt outstanding, representing approximately one-quarter of U.S. credit markets. This partly reflects the size of the U.S. economy relative to the rest of the world.

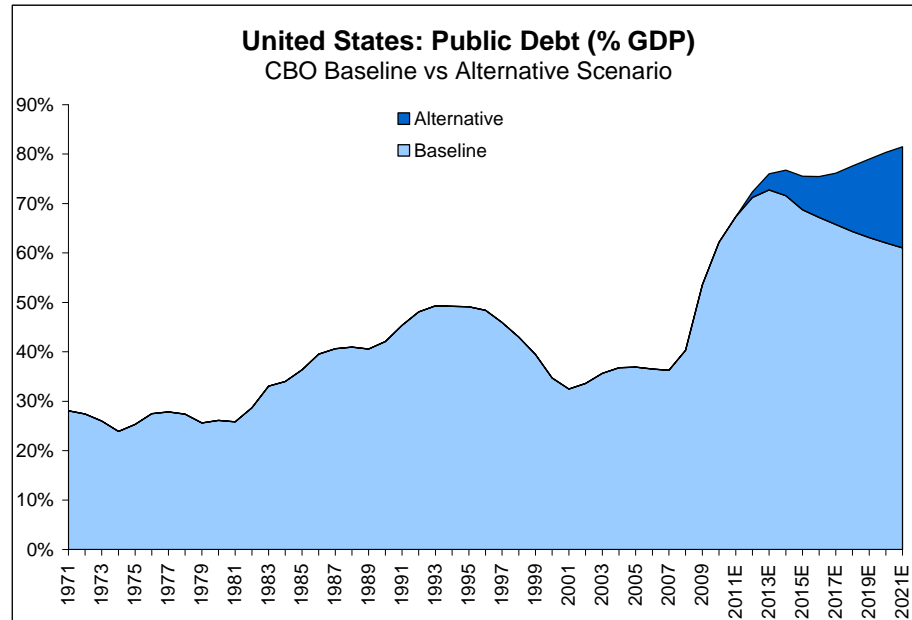
Second, since the U.S. dollar is the dominant global reserve asset, during periods of risk aversion, there tends to be an increase in demand for U.S. Treasury securities. This has created favorable funding costs and allowed the Treasury to issue debt relatively cheaply, even during periods of stress. During the crisis, U.S. net

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interest expenses have remained low and stable, rising from 1.3% of GDP to 1.4% of GDP in 2010. As of July 2011, total interest-bearing debt (excluding the lower interest bearing Treasury Inflation-Protected Securities or TIPS) averaged 2.965%, versus 3.132% one year earlier. It is notable that during the recent midyear market volatility during the U.S. debate over the debt ceiling, U.S. Treasury securities rallied and yields declined.

Exhibit 4



Source: CBO, DBRS. Federal debt held by the public. Alternative scenario extrapolated from CBO assumptions.

Third, in spite of the increase in the debt stock, the debt dynamics are favorable. The size of the debt stock, and therefore the required number of debt auctions, prevents the Treasury from being as opportunistic a debt issuer as less-indebted advanced countries. Nevertheless, good liquidity and regularly scheduled debt auctions provide predictability in the market. Since 2008, the overall goal of the Treasury has been to extend the weighted average maturity of the debt, and this has yielded favorable results. The average maturity of marketable interest-bearing public debt held by private investors was 62 months in June 2011, up from 59 months in June 2010. This is a result of a large increase in holdings of 20 years or more, the removal of mid-term maturities – resulting in a reduction of holdings of 5-10 year and 10-20 year securities – and in recent months, a reduction in holdings of securities of one year or less.

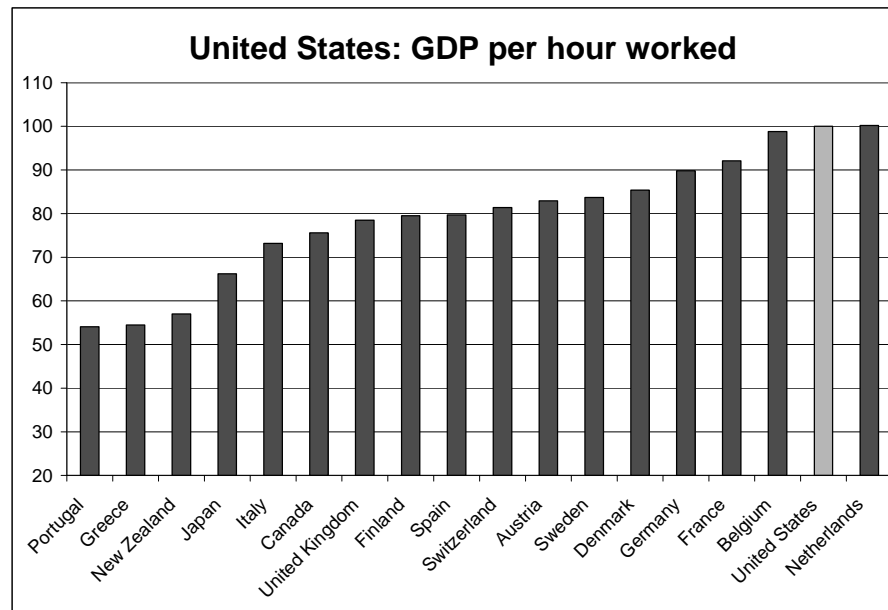
Furthermore, purchasers of U.S. debt have remained diversified. Of the top ten holders of U.S. Treasury securities, since June 2010 there have been big increases in China, Japan, the UK, oil exporters, Brazil and Canada – offset only slightly by a decline in several of the remaining ten – Caribbean banking centers, Hong Kong and Russia. Furthermore, most of the decline was in holdings of short term Treasury bills. Holdings of long term instruments grew sharply.

Looking forward, using debt held by the public (Treasury securities held by investors), the CBO's two scenarios as outlined above are the following. Assuming no changes in current laws, the stock of debt would rise from \$10.2 trillion in 2011 to \$14.5 trillion in 2021. Debt-to-GDP would rise from 62.1% in 2010 to 67.3% in 2011, peak at 72.8% in 2013, before falling to 61% in 2021. An alternative scenario involves changes in current laws, including the extension of specific tax provisions that are set to expire, and preventing cuts to payments for physicians' services under Medicare. This would increase the deficit by an additional \$5 trillion over the baseline deficit over the next 10 years, and debt to GDP would peak at 82% of GDP in 2021.

Economic Structure and Performance

The U.S. economy is highly productive, well-diversified and flexible, but suffers from structural imbalances in education, skills training and income distribution. With GDP of \$14.7 trillion in 2010, it is by far the world's largest economy. In the two decades prior to the 2008-09 recession, economic growth was strong and relatively stable, expanding at an average annual rate of 3.0% – faster than most other advanced industrialized economies. Nevertheless, economic activity would likely be more balanced and grow closer to potential with better physical infrastructure, an improved energy matrix and a more equal distribution of wealth and income. Low funding costs helps prevent a crowding out of private sector investment evident in other highly indebted advanced countries.

Exhibit 5



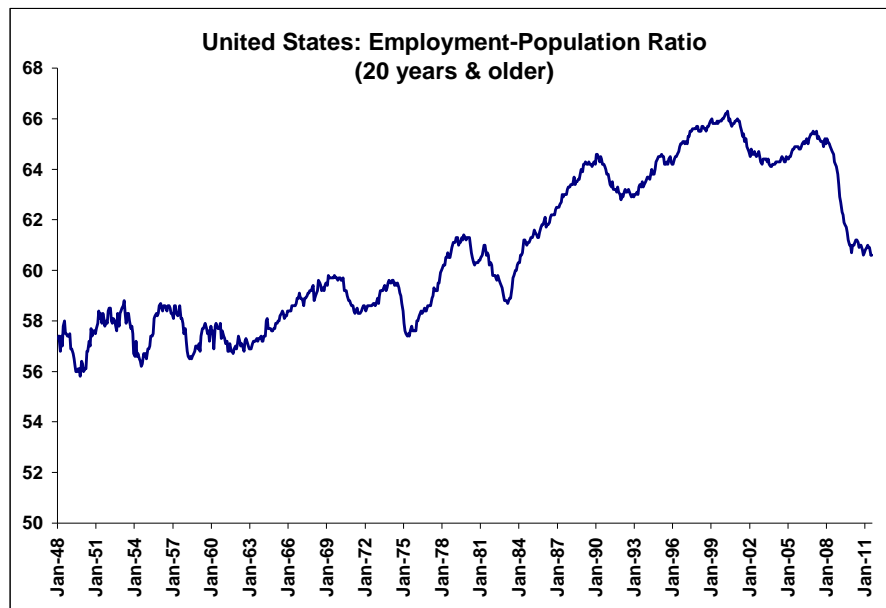
Source: OECD, DBRS. 2010 data.

Among advanced countries, the U.S. is one of the most productive economies, with GDP per hour worked on par with the Netherlands and Belgium. Following a slowdown from 1987 to 1995, productivity growth recovered in the late 1990s. From 2000 to 2010, private non-farm business productivity increased at an annual rate of 1.25% and was responsible for 45% of the growth in output per hour. From 1998 to 2007, real GDP per capita grew at an average rate of 1.9%. If the 2008-09 recession is included, this comparatively good performance worsens. From 1998 to 2010, real GDP per capita grew at an average rate of 1.2%. The labor market is flexible and disincentives to participate appear low. Employment rates have been comparatively high and stable over the last 20 years, averaging 65% for persons aged 20 and older. Furthermore, there has been an increase in employment rates from 11.5% in 1990 to 16.4% in 2010 for those older than 65, a trend that has not abated even in the current weak labor market.

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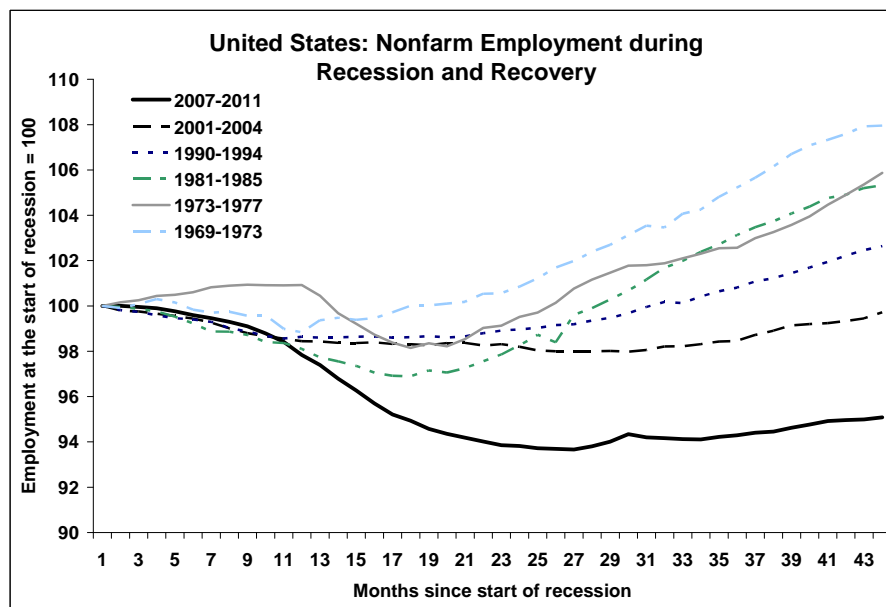
Exhibit 6



Source: BLS, DBRS

Offsetting these strengths is that since the onset of the crisis, the labor market has performed poorly. This is partly due to ongoing weakness in domestic demand. From the pre-recession peak in January 2008 to the trough in February 2010, nonfarm employment declined by 8.8 million, or 6.3%, the most severe contraction since 1945. The decline in the employment-population ratio was also significantly larger than previous recessions, reflecting both higher unemployment and workers leaving the labor force. Construction and manufacturing sectors experienced the largest job losses, but all sectors of the private economy suffered declines, with the exception of education and health services. In 2010 the labor market stabilized, but the recovery remains weak. The employment-population ratio has shown no sign of improvement and in July 2011 employment was still 6.8 million jobs below the pre-recession peak.

Exhibit 7



Source: BLS, NBER, DBRS

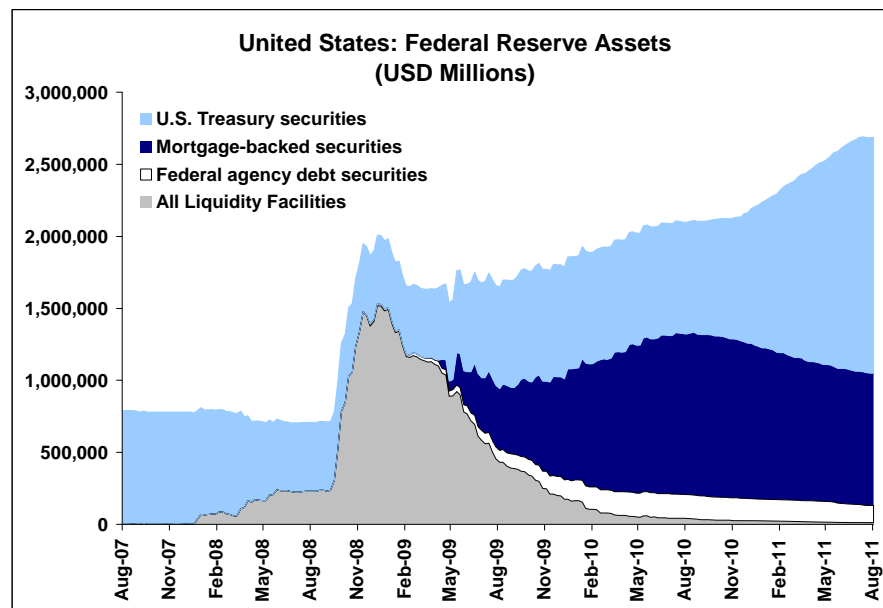
Monetary Policy and Financial Stability

U.S. monetary policy is administered by the Federal Reserve System, the central bank, whose mandate is to foster a stable monetary and financial system by:

- Influencing monetary and credit conditions in pursuit of maximum employment, stable prices and moderate long-term interest rates.
- Supervising and regulating banking institutions to ensure the safety and soundness of the banking and financial system and to protect consumers' credit rights.
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets.
- Providing financial services to depository institutions, the U.S. government and foreign official institutions, including playing a major role in operating the payments system.

In the face of growing signs of a weakening recovery, the Federal Open Market Committee (FOMC) signaled on August 9, 2011 a prolonged period of very low nominal interest rates. The FOMC went further than in past policy statements by specifying a longer timeframe, which is expected to run at least through mid-2013, for its current policy rate stance of targeting the federal funds at 0% to 0.25%. In spite of some improvements in non-financial corporate and household balance sheets, the recent rise in financial market uncertainty as downside risks to the recovery have increased, could potentially affect the functioning of the capital markets. However, DBRS believes that the Federal Reserve is well placed to provide liquidity quickly if this were required.

Exhibit 8



Source: U.S. Federal Reserve, DBRS

The extraordinary measures undertaken by the FOMC since 2007 to provide liquidity in the face of runs on segments of the capital markets and to support the mortgage market have resulted in substantial changes in the size and composition of the Federal Reserve balance sheet. The provision of liquidity beyond the traditional banking system was instrumental in limiting the damage caused by the freezing of the capital markets. At present, the Federal Reserve balance sheet is mobilized to support mortgage financing and reduce mortgage rates, and to attempt to lower economy-wide longer-term interest rates. Purchases of federal agency securities (debt and mortgages) peaked at \$1.28 trillion in July 2010, and stood at \$1 trillion in August 2011, while the program to purchase \$0.6 trillion in longer-term Treasury securities to reduce longer-term interest rates was completed in June of this year.

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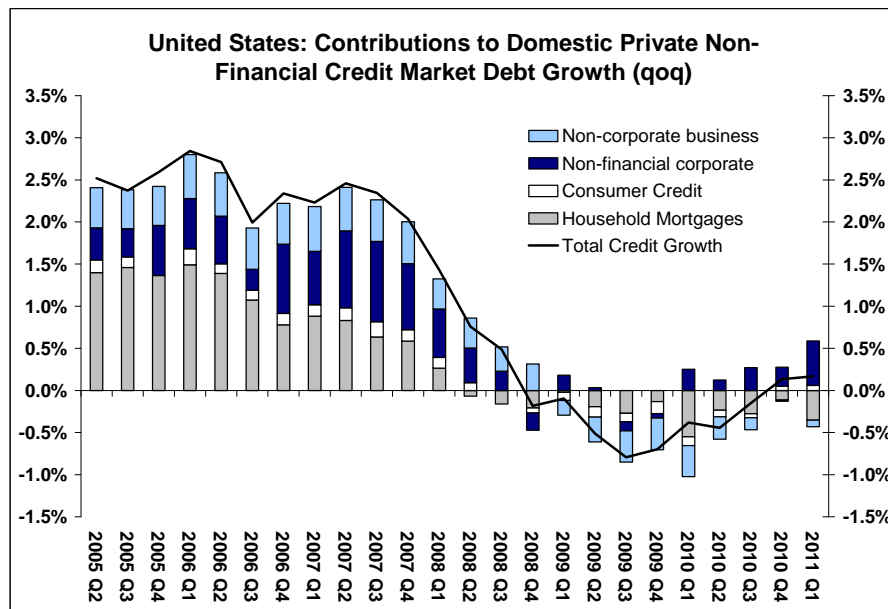
Household balance sheets were severely affected by the drop in housing values, and the attempt to repair some of the damage by increasing savings appears to continue, weakening the recovery. Personal saving out of disposable income rose from an average of 2.8% of disposable income from 2000 to 2007, to 5.3% in 2010. Household debt is relatively high at 88.7% of GDP in 2010, and mortgage debt over the value of household real estate has risen from 43% in 2006 to 61% in 2010, reflecting the loss in household home equity.

Housing prices have fallen approximately 32% since their peak in the first quarter of 2006. If prices show weakness in the near term, this is likely to continue to affect the balance sheets of both households and the financial sector. Delinquency rates over 90 days on household mortgages have fallen since their peak of 8.9% in the first quarter of 2010, to 6.9% in the second quarter of 2011, but remain far higher than the approximately 1% before the crisis. However, low nominal interest rates have improved the capacity of households to meet their financial obligations. These obligations absorbed 18.7% of disposable income in 2007, and declined to 16.4% in 2011.

Non-financial corporate credit market liabilities rose from 43.3% of GDP in 2005 to 47.7% of GDP in 2007, and stood at 49.4% of GDP in 2010. Asset value deterioration has weakened the non-financial corporate sector balance sheet. Nevertheless, debt ratios remain comparatively moderate, and with the recovery, debt servicing capacity has improved as profits reached a new peak in 2010. However, credit to the non-corporate business sector, which relies significantly on mortgage financing, has yet to grow two years into the recovery.

As the deleveraging in the private sector continues, banking sector capital ratios have improved substantially, mostly the result of raising private capital. According to the Federal Reserve Comprehensive Capital Analysis and Review, for 19 of the larger banking holding companies tier 1 common capital ratios have increased to 9.4% in the fourth quarter 2010 from 5.4% in the fourth quarter 2008. This provides an important cushion if asset quality were to deteriorate from a significant weakening of the recovery. However, the banking sector continues to face headwinds: first from lower revenue growth if the recovery stalls, second from continuing weakness in housing prices and problems in the mortgage foreclosure process, and third from the uncertainty surrounding the regulatory framework and its cost implications.

Exhibit 9



Source: U.S. Federal Reserve Flow of Funds, DBRS

Other key segments of the capital markets have reduced their activities as investor appetite has diminished, including private label mortgage backed securities. As a result, Fannie Mae and Freddie Mac, which have been placed under the control of the federal government, and the Federal Housing Administration, guarantee or insure over 90% of new mortgages. Fannie Mae and Freddie Mac hold approximately \$5 trillion or 34% of

GDP of the \$11.3 trillion of residential mortgage debt outstanding. DBRS believes it is unlikely that this dominant financing role can be reversed quickly. Hence, the federal government will likely continue to bear the credit risk from this exposure for the foreseeable future.

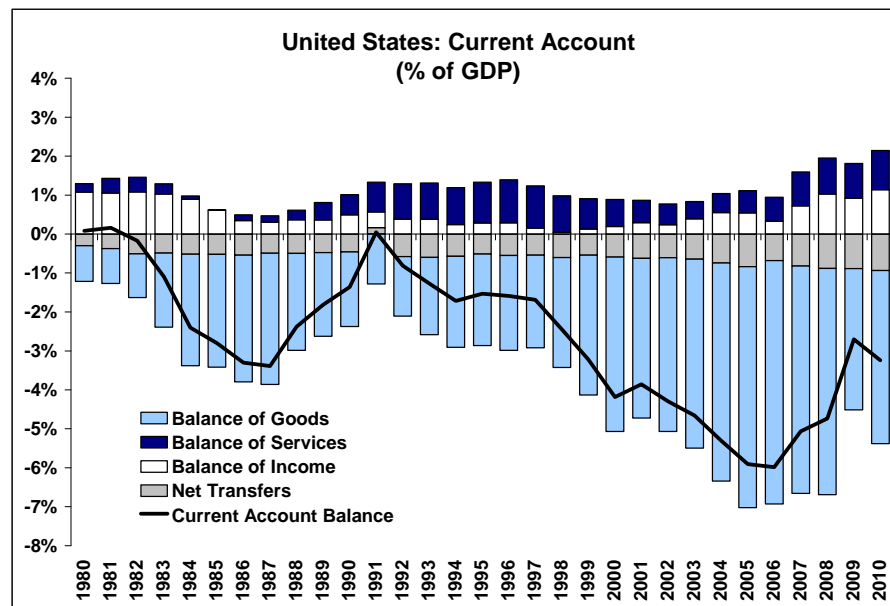
Balance of Payments

In spite of the drying up of credit, delayed investment decisions and a dampening of U.S. consumer confidence, pressures on the balance of payments have been relatively moderate and manageable from a financing perspective. This is partly owing to the benefits from the U.S. dollar and associated low financing costs, and partly from a competitive exchange rate and vibrant export sector.

The current account deficit widened persistently in the 1990s and the first half of the 2000s, as greater external financing was needed to sustain gross domestic investment. In 2006, the current account deficit peaked at 6% of GDP. With the onset of the global recession, US corporates and households increased savings and domestic investment declined. As a result, net external borrowing needs narrowed, reaching 2.7% of GDP in 2009 and 3.2% of GDP in 2010. Despite large current account deficits, the net international investment position (IIP) has remained stable over the last decade, due in large part to valuation gains of US-owned assets abroad and dollar depreciation. In 2010, the US had a very manageable negative net IIP position of 17% of GDP.

Although the services and income surpluses have increased marginally over the last four years, the external adjustment has largely taken place through the trade balance. The goods deficit declined from 5.8% of GDP in 2008 to 3.6% of GDP in 2009, as weak import demand and lower commodity prices more than offset a decline in exports. With the rebound in global trade in 2010, both exports and imports recovered. Exports of goods and services increased 17% in 2010 and surpassed pre-crisis highs in the first quarter of 2011.

Exhibit 10



Source: BEA, DBRS

United States of America

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Political Environment

Last general election:	November 4, 2008
Next general election:	November 6, 2012
Party in executive office:	Democratic party
Government Structure:	Federal Constitutional Republic
President:	Barack Obama

The power of the U.S. federal government is divided by the constitution into executive, legislative and judicial branches. This separation of powers creates a system of checks and balances, each of which contributes to the legal system. The constitution delineates the types of laws that the Congress is permitted to approve. In some instances, the Congress authorizes administrative agencies to adopt statutory requirements. Jurisdiction is further apportioned between the federal and state governments.

The entire legal system is based on traditional legal principles in English Common Law. The U.S. is unique in that every state in the union holds sufficient powers to approve reforms, as long as they do not contradict the constitution. The U.S. is mainly ruled by two centrist political parties, the Republican and Democratic parties. The U.S. has strong electoral institutions that create a stable democracy.

Recent political trends have seen a greater polarization of political parties, as is evident by the extensive debates in 2010 and 2011 over fiscal policy and the statutory limit on debt, both delayed by differences in approach to policy. In the near term implementation risk will remain significant. If fully executed, the renewed commitment to fiscal adjustment should succeed in stabilizing debt-to-GDP. Longer term, addressing structural pressures from Social Security, Medicare and Medicaid will be important to maintaining a sustainable fiscal position. If the U.S. economic outlook sharply deteriorates over the coming months, a strong medium-term fiscal consolidation plan will be all the more urgent. Nonetheless, DBRS believes that the executive and legislative branches of government are likely to identify areas of fiscal policy necessary to reduce the deficit and stabilize the public debt over the medium-term. DBRS also believes that successive governments are likely to address longer-term structural fiscal issues.

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United States: Selected Indicators

For the year ended September 30

(US\$ billions unless otherwise noted)

	2005	2006	2007	2008	2009	2010
<i>Public Sector Debt</i>						
General Government Gross Debt	7,905	8,451	8,951	9,986	11,876	13,529
% GDP	63.5%	63.9%	64.4%	69.4%	84.2%	93.2%
Central Government Gross Debt	4,592	4,829	5,035	5,803	7,545	9,019
% of GDP	36.9%	36.5%	36.2%	40.3%	53.5%	62.1%
Central Government Net Debt				5,293	6,526	8,005
% GDP				36.8%	46.3%	55.2%
<i>Domestic Debt</i>						
General Government	5,836	6,244	6,500	6,886	8,175	9,118
% GDP	46.9%	47.2%	46.8%	47.8%	58.0%	62.8%
<i>External Debt</i>						
General Government	2,069	2,208	2,451	3,100	3,701	4,411
% GDP	16.6%	16.7%	17.6%	21.5%	26.3%	30.4%
Private Sector	7,408	8,996	10,976	10,650	10,067	10,045
% of GDP	59.5%	68.0%	79.0%	74.0%	71.4%	69.2%
Gross External	9,476	11,204	13,427	13,750	13,768	14,456
% GDP	76.1%	84.7%	96.7%	95.5%	97.7%	99.6%
<i>Fiscal Balances (% GDP)</i>						
Central Government Balance	-2.6%	-1.9%	-1.2%	-3.2%	-10.0%	-8.9%
General Government Balance	-3.4%	-2.2%	-2.9%	-6.5%	-11.5%	-10.7%
Revenues	29.7%	30.5%	30.4%	28.4%	26.5%	27.4%
Expenditures	33.0%	32.7%	33.4%	34.9%	38.0%	38.2%
Interest Payments	1.5%	1.7%	1.7%	1.8%	1.3%	1.4%
Interest Payments (% Revenues)	5.0%	5.6%	5.6%	6.2%	5.0%	4.9%
General Government Primary Balance	-1.9%	-0.5%	-1.2%	-4.8%	-10.2%	-9.4%
<i>Balance of Payments & Liquidity</i>						
Current Account Balance	-745.8	-800.6	-710.3	-677.1	-376.6	-470.9
% GDP	-5.9%	-6.0%	-5.1%	-4.7%	-2.7%	-3.2%
Trade Balance (% GDP)	-6.2%	-6.2%	-5.8%	-5.8%	-3.6%	-4.4%
Net Foreign Direct Investment (% GDP)	0.6%	0.0%	-1.4%	-0.1%	-1.0%	-0.8%
International Investment Position	-1,932	-2,192	-1,796	-3,260	-2,396	-2,471
% of GDP	-15.3%	-16.4%	-12.8%	-22.8%	-17.2%	-17.0%
External Assets	11,962	14,428	18,400	19,465	18,487	20,315
External Liabilities	13,894	16,620	20,196	22,725	20,883	22,786

Notes: All fiscal year ended Sept 30 except Balance of Payments & Liquidity section: calendar year. GG gross debt: Federal Gross Debt (comprises federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts). CG gross debt: debt held by the public (Treasury securities held by investors including Federal Reserve); CG net debt: subtracts from debt held by the public the value of financial assets (such as preferred stock) purchased from institutions participating in the Troubled Asset Relief Program, holdings of preferred stock in Fannie Mae and Freddie Mac, the Treasury's purchases of mortgage-backed securities, cash balances, and other financial instruments. Fiscal Balances: General government, which includes federal, state and local accounts. 2010 estimated population is 310 million. Source: GG gross debt: Office of Management and Budget (OMB). GG fiscal accounts are on national accounts basis from the Bureau of Economic Analysis (BEA). Fiscal and CG accounts: CBO. External debt: US Treasury, World Bank. Balance of Payments & Liquidity: BEA. Other sources: IMF, Bureau of Labor Statistics (BLS).



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Ratings

Issuer	Debt Rated	Rating	Trend
United States of America	Long-Term Foreign Currency Debt - Issuer Rating	AAA	Stable
United States of America	Long-Term Local Currency Debt - Issuer Rating	AAA	Stable

Note:
All figures are in US\$ unless otherwise noted.

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