

Rating Actions Taken On New MexiGROW Local Government Investment Pool

Primary Credit Analysts:

Peter Rizzo
New York
(1) 212-438-5059
peter_rizzo@
standardandpoors.com

Secondary Credit Analysts:

Ruth Shaw
New York
(1) 212-438-1410
ruth_shaw@
standardandpoors.com

Publication Date

March 6, 2009

NEW YORK (Standard & Poor's) March 5, 2009—Standard & Poor's Ratings Services said today that it lowered its principal stability fund rating on the New MexiGROW Local Government Investment Pool (LGIP) to 'Dm' from 'AAAm' and then raised the rating back to 'AAAm'.

These rating actions are based on the New Mexico State Treasurer's Office's recent decision to reallocate on a pro rata basis the LGIP's initial exposure to the Reserve Primary Fund. As a result of the Treasurer's Office's decision, investors in the LGIP that were participants in the pool at the time of the Reserve Primary Fund's default will realize a decline in invested principal that is more than 0.5%. Therefore, we lowered the rating on New MexiGROW LGIP to 'Dm'. Following the decision, we raised the rating on the fund to 'AAAm', as the LGIP's current holdings (T-bills and fully collateralized bank deposits) provide superior capacity to maintain principal stability.

On Sept. 15, 2008, the LGIP had approximately 23%, or \$381.7 million (within our 25% diversification limits for a 'AAAm' rating) of its assets in the Reserve Primary Fund. We lowered our rating on the Reserve Primary Fund to 'Dm' from 'AAAm' on Sept. 17, 2008, because of exposure to Lehman Brothers Holdings Inc. and a material decline in net assets. We subsequently withdrew the rating on Jan. 6, 2009.

Following the downgrade of the Reserve Primary Fund, on Sept. 22, 2008, the New MexiGROW LGIP sold its Reserve exposure to the New Mexico State General Fund at par under a put agreement. Because this eliminated the distressed asset from the LGIP, we did not take a rating action at that time, as principal stability appeared to have been protected. In return for providing the put, the New Mexico State Treasurer's Office outlined a plan to

Rating Actions Taken On New MexiGROW Local Government Investment Pool

amortize the estimated loss amount by the Reserve investment during the first 10 months of 2009 by reducing the yield generated by the LGIP holdings that is paid to shareholders.

On Feb. 26, 2009, the Reserve stated that it would set aside \$3.5 billion in a special reserve account to cover potential damages and legal fees, and it would continue to make interim distributions up to \$0.9172 per share. Because this announcement materially changed the expected liquidation value of the Reserve exposure, as of March 2, 2009, the State Treasurer's Office of New Mexico revised its plan to amortize the loss accumulated in the General Fund. The revised plan allocated the pro rata share of the LGIP's participants' balance in the Reserve Primary Fund as of Sept. 15, 2008, into a new, unrated fund known as the Reserve Contingency Fund (RCF) so that it was separate from the other New Mexico State Treasurer's Office investment pools, resulting in the downgrade of the fund to 'Dm' based on the decline of those participants' principal value. Following the bifurcation, which resulted in investors in the Pool having interests in both the LGIP and the RCF, we raised the rating on the LGIP to 'AAAm' because the LGIP's current holdings provide a superior capacity to maintain principal stability.

This rating approach is consistent with our methodology regarding distressed exchanges outlined in our Jan. 28, 2009, article, titled "Rating Implications Of Exchange Offers And Similar Restructurings" (published Jan. 28, 2009, on RatingsDirect). Using this methodology, if we believe the rated pool would pay less than a \$1.00-per-share net asset value if the exchange or amendment were not executed, we would view it as commensurate with a distressed exchange and lower the issue rating to 'Dm' before raising it to a level that reflects the then-current ability to maintain principal value.

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.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2009 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 800-852-1641 or write us at: privacy@standardandpoors.com. For more information about The McGraw-Hill Companies Privacy Policy please visit www.mcgraw-hill.com/privacy.html.

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Credit ratings issued by Ratings Services are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of credit ratings issued by Ratings Services should not rely on any such ratings or other opinion issued by Ratings Services in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$2,000 to over US\$1,500,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications.

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280; or by e-mail to: research_request@standardandpoors.com.