August 8, 2011

Frequently Asked Questions Concerning the Potential Effects of Recent Ratings Actions on U.S. Treasury and Government Debt

The three major recognized U.S. rating agencies (Moody's Investors Service, Standard & Poor's and Fitch Investors) hold divergent perspectives regarding current sovereign U.S. debt rating assignments, following legislation enacted on August 2, 2011, authorizing a raise in the statutory U.S. debt ceiling.

On August 2, 2011, Moody's affirmed its Aaa U.S. government bond rating with a negative rating outlook, concurrently removing long-term U.S. ratings from actual downgrade review. "Review for possible downgrade" status is a more severe and time-sensitive watchlist category, so Moody's effectively reduced the near-term likelihood of negative rating action being taken concerning the Aaa rating. Nonetheless, in its initial July 13, 2011, watchlist action, Moody's stated that the U.S. debt trajectory "may prove to be incompatible" with its top Aaa rating over the next few years.

Fitch Investors assumed a similar posture to Moody's by affirming the long- and short-term U.S. AAA rating August 2, 2011, and not taking direct negative watchlist action on its AAA rating assignment. Commensurate with previous statements made by the rating agency, however, the Sovereign Ratings Group at Fitch is currently undertaking a scheduled review of the U.S., which it expects to complete by the end of August.

On August 5, 2011, Standard & Poor's (S&P) lowered its long-term sovereign credit rating of the U.S. from AAA to AA+ while affirming its A-1+ short-term U.S. rating. In doing so, S&P removed both the short-term and long-term credit rating from CreditWatch negative, but maintained a negative outlook on the long-term rating. This negative outlook by S&P means the U.S. long-term rating could be downgraded again within the next two years. Dreyfus will continue to monitor any supplemental data closely and provide further insight as necessary.

Due to the downgrade by S&P, the U.S. now has a "split" long-term sovereign rating (Aaa/AA+/AAA), but continues to retain the highest possible short-term rating assignments (P-1/A-1+/F-1+) by all three major recognized rating agencies.

Q - What was S&P's rationale for the downgrade from AAA to AA+?

S&P cited two primary reasons for their downgrade action: 1) The fiscal consolidation plan agreed to by the U.S. Congress and the Administration ($2.1 - $2.4 trillion in deficit reduction over the next 10 years) fails, in S&P's view, to stabilize debt dynamics over the medium term and 2) the prolonged debate regarding raising the debt limit has highlighted the unpredictability of American policy response regarding future necessary measures needed to contain the growth of public debt. By incorporating these factors, S&P essentially accelerated their ratings timetable, relative to the maintenance of debt metrics required to conform to AAA sovereign ratings tolerances.

Q - Was this action by S&P a surprise?

In our view, S&P's action was not unexpected, as the rating agency had indicated earlier a need for additional spending cuts or revenue increases over 10 years, as a precondition for the U.S. to maintain its AAA sovereign rating. In addition,

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S&P had placed the U.S. rating on CreditWatch negative July 14, 2011, signaling that a potential downgrade was imminent over the next 90 days, even if the debt ceiling was raised.

Q - Given S&P's downgrade, will the "split" Aaa/AA+/ AAA U.S. credit ratings affect Aaa-mf/AAAm/AAAmmf managed funds ratings assigned to Rule 2a-7 mutual funds?

In a supplemental press release issued August 8, 2011, S&P stated that principal stability money fund ratings are unaffected by the AA+ U.S. sovereign downgrade. This is consistent with previously established rated funds methodologies where Moody's, S&P and Fitch each view managed funds and principal stability fund rating assignments as closely correlated to short-term ratings, in addition to other portfolio stability factors such as liquidity, diversification and weighted average maturities. Additionally, as U.S. short-term debt ratings of P-1/A-1+/F-1+ were affirmed by all three rating agencies, U.S. Treasury and Government securities will continue to remain Rule 2a-7 eligible First Tier securities. On this basis, the rating agencies have publicly stated that it is possible for U.S. Treasury and Government Agency money funds, even one with an average portfolio credit quality of AA+, to continue to maintain Aaa-mf/ AAAm/AAAmmf ratings. Of course, indirect market and liquidity risk factors that arise in the interim could alter that view.

Despite potential outlier uncertainties, it continues to be Dreyfus' baseline expectation that the implications of the modest one notch downgrade by S&P on rated funds overall will be minimal, and that Aaa-mf/AAAm rated Prime, U.S. Treasury and U.S. Government money funds will continue to preserve the highest ratings. This continues to depend on a number of direct variables specific to market factors and managed funds criteria sets (that are each differentiated between ratings agencies), as well as the severity of any future U.S. downgrade, should it occur and how the rating agencies would apply those events to its fund ratings assignments.

Q - Would a downgrade of the U.S. Treasury Rating affect the creditworthiness of senior unsecured U.S. Agency securities?

The extent of explicit and implied federal support for the numerous Government Sponsored Enterprises (GSEs) is highly distinct, and dependent on mandate, federal charter, and regulatory governance.

That said, the U.S. sovereign downgrade has resulted in the anticipated "lockstep" downgrades for agencies benefitting from explicit backstops or direct U.S. Treasury capital draws, including Fannie and Ginnie Mae, Freddy Mac, The Federal Home Loan Banks and The Federal Farm Credit Bank, among others.

At the present time, the impact of any further GSE downgrades would be difficult to predict with precision, as the current outstanding value of funded debt issued by the four largest U.S. GSEs (Fannie Mae, Freddie Mac, The Federal Home Loan Bank and The Federal Farm Credit Bank) exceeds $2 trillion. Though it is possible that the GSE's current "split" rating of Aaa/AA+/AAA could potentially affect access to primary debt markets, issuance spreads and secondary market yield volatility to some extent, Dreyfus does not expect material market disruption at this time.

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Standard & Poor's (S&P) believes that, with a Principal Stability Rating of AAAm, the fund has an extremely strong capacity to maintain principal and stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. The letter "G" follows the rating symbol when a fund's portfolio consists entirely of direct U.S. Government securities. Moody's Investors Service rates money market mutual funds 'Aaa-mf' if, in Moody's opinion, a fund has a very strong ability to meet the dual objectives of providing liquidity and preserving capital. This rating, which is derived from a combination of Moody's assessment of a fund's Portfolio Credit Profile, Portfolio Stability Profile, and other qualitative factors, is not intended to consider prospective performance of a fund. Fitch's Money Market Fund Rating of AAAmmf denotes Fitch's opinion that the fund has an extremely strong capacity to achieve its investment management objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk. Fitch's rating does not opine on any quality other than the fund's ability to maintain a stable net asset value.

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