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## Two Ratings Raised On TSASC Inc. Series 2006-1; Two Ratings Affirmed

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### OVERVIEW

- TSASC Inc.'s tobacco settlement asset-backed bonds series 2006-1 are backed by tobacco settlement revenues due to New York as part of a master settlement agreement between participating tobacco companies and the settling states.
- We raised our ratings on two tranches and affirmed our ratings on two others.
- Our rating actions reflect the tranches' ability to pay timely interest and principal under various stress scenarios.

NEW YORK (Standard & Poor's) Jan. 26, 2015--Standard & Poor's Ratings Services today raised its ratings on two tranches from TSASC Inc.'s \$1.35 billion tobacco settlement asset-backed bonds series 2006-1 and affirmed its ratings on two other tranches (see list). All outstanding classes of this series were originally issued and rated in 2006. TSASC Inc.'s series 2006-1 consists of turbo term bonds maturing between 2022 and 2042.

The rating actions reflect our view of the transaction's performance under a series of stressed cash flow scenarios, including:

- A cigarette volume decline test that assesses if the transaction can withstand annual declines in cigarette shipments;
- Payment disruptions by the largest of the participating manufacturers, by market share, at various points over the transaction's term to reflect a Chapter 11 bankruptcy filing; and
- A liquidity stress test to account for settlement amount disputes by participating manufacturers, as a result of changes to their market share, which continues to shift to nonparticipating manufacturers.

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We affirmed our ratings on classes that we believe will make timely interest and principal payments under all three stress scenarios commensurate with the current ratings. We raised our ratings on classes that can now make timely interest and principal payments at a higher rating level.

The raised ratings also had to pass additional volume decline sensitivity tests, commensurate with the higher rating levels.

Our analysis also reflects developments within the tobacco industry. We view the U.S. tobacco industry as having a stable rating outlook based on the high brand equity and pricing power of the top three manufacturers' conventional cigarette brands. In our view, this should help offset ongoing cigarette volume declines and allow for sustained cash flows. However, changing regulations and ongoing litigation risk are constraining factors the industry faces.

### RELATED CRITERIA AND RESEARCH

#### Related Criteria

- Revised Assumptions For U.S. Tobacco Settlement-Backed Transactions, Oct. 28, 2011
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Revised Framework For Applying U.S. Tobacco Securitization Criteria, May 18, 2007
- Overview of S&P's Tobacco Securitization Rating Methodology, Oct. 25, 2000

#### Related Research

- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

### RATINGS RAISED

TSASC Inc.

\$1.35 billion tobacco settlement asset-backed bonds series 2006-1

Class	CUSIP	Maturity	Rating	
			To	From
2006	898526CX4	6/1/2022	BBB- (sf)	BB+ (sf)
2006	898526CY2	6/1/2026	BB- (sf)	B+ (sf)

### RATINGS AFFIRMED

TSASC Inc.

\$1.35 billion tobacco settlement asset-backed bonds series 2006-1

Class	CUSIP	Maturity	Rating
2006	898526CZ9	6/1/2034	B (sf)
2006	898526DA3	6/1/2042	B- (sf)

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