

Fitch Rates VRDP Shares Issued by 2 Nuveen Funds to Refinance Outstanding Preferred Shares

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has assigned the following long-term and short-term ratings to variable rate demand preferred shares (VRDP shares) issued by two Nuveen municipal closed-end funds managed by Nuveen Fund Advisors, LLC (NFA) and subadvised by Nuveen Asset Management, LLC (NAM):

Nuveen California Dividend Advantage Municipal Fund 3 (NZH):

--\$160,000,000 of VRDP shares, 1,600 Series 1 VRDP shares, final mandatory redemption date Sept. 1, 2043, rated 'AAA/F1'.

Nuveen Ohio Quality Income Municipal Fund (NUO)

--\$148,000,000 of VRDP shares, 1,480 Series 1 VRDP shares, final mandatory redemption date Sept. 1, 2043, rated 'AAA/F1+'.

The two funds will use the proceeds of the VRDP issuances to fully refinance the outstanding MuniFund Term Preferred Shares (MTP shares) of NZH and the outstanding MTP shares and Variable Rate MuniFund Term Preferred Shares (VMTP shares) of NUO. Fitch expects the proceeds of the newly issued VRDP shares to be deposited irrevocably in an escrow account with the MTP and VMTP shares redemption agent pending a 10 day notification period provided to the MTP and VMTP shareholders and accordingly the VRDP shares issuance will not adversely affect the ratings of the MTP and VMTP shares while they remain outstanding. For each fund, the amount deposited with the redemption agent will equal the notional value of the MTP and VMTP shares and any accumulated and unpaid dividends. When the notification period has passed, the outstanding MTP and VMTP shares are expected to be redeemed using the escrowed VRDP share proceeds and then marked paid in full by Fitch.

KEY RATING DRIVERS

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The short-term ratings primarily reflect:

--The credit strength of the liquidity provider for the NZH VRDP shares [Barclays Bank PLC (rated 'A/F1' by Fitch), and the NUO VRDP shares - Royal Bank of Canada (rated 'AA/F1+')].

--The terms and conditions of the VRDP shares purchase agreements (purchase agreements).

The 'AAA' long-term ratings primarily reflect:

--Sufficient asset coverage provided to the VRDP shares as calculated per the funds' over-collateralization (OC) tests.

--The structural protections afforded by mandatory de-leveraging provisions in the event of asset coverage declines.

--The legal and regulatory parameters that govern the funds' operations.

--Both the short- and long-term ratings also reflect the capabilities of NFA as investment advisor and NAM as subadvisor.

TENDER AND REMARKETING

The VRDP shares benefit from a feature giving investors the right to tender the securities with a seven-day notice for remarketing. The VRDP shares are also subject to a mandatory tender for remarketing upon the occurrence of certain events, such as non-payment of dividends by the applicable fund, among others. VRDP shares that are

unsuccessfully remarketed are purchased by the applicable liquidity provider.

The VRDP shares have a 30-year mandatory redemption date and pay an adjustable dividend rate set weekly by the applicable remarketing agent. Should a remarketing be unsuccessful, the dividend rate will reset to a maximum rate as defined in the governing documents.

PURCHASE OBLIGATION

The VRDP shares of each fund are supported by a purchase agreement to ensure full and timely repayment of the liquidation preference amount plus any accumulated and unpaid dividends to holders upon occurrence of certain events. The agreement requires the liquidity provider to purchase all VRDP shares of the applicable fund tendered for sale that were not successfully remarketed. The liquidity provider must also purchase all outstanding VRDP shares of the applicable fund if the fund has not obtained an alternate purchase agreement prior to the termination of the purchase agreement being replaced or following the downgrade of the liquidity provider's rating below 'F2' (or equivalent).

The purchase of VRDP shares pursuant to the purchase agreement is unconditional and irrevocable, and as such the short-term ratings assigned to the VRDP shares are directly linked to the short-term creditworthiness of the associated liquidity provider.

The liquidity provider's obligation under each purchase agreement has a scheduled termination date. Fitch expects each purchase agreement to be subsequently extended, with terms that are substantially similar to the current purchase agreement.

ASSET COVERAGE

The funds' asset coverage ratios for the VRDP shares, as calculated in accordance with the Investment Company Act of 1940, were in excess of the minimum asset coverage threshold of 225% currently set by the terms of the fee agreement between each fund and the applicable liquidity provider (Minimum VRDP Asset Coverage test).

The funds have also covenanted with the applicable liquidity provider to maintain Effective Leverage Ratios for both VRDP shares and floating-rate certificates of tender option bonds not exceeding 45% (or 46% if the increase in the ratio is due exclusively to asset market value volatility). The funds' Effective Leverage Ratios are currently below 45%.

In the event of asset coverage declines, the funds' governing documents will require the funds to reduce leverage in order to restore compliance with the asset coverage test breaching the required threshold.

STRESS TESTS

Fitch performed various stress tests on the funds to assess the strength of the structural protections available to the VRDP shares compared to the stresses outlined in Fitch's closed-end fund rating criteria. These tests included determining various 'worst case' scenarios where the funds' leverage and portfolio composition migrated to the outer limits of the funds' operating and investment guidelines.

Only under remote circumstances, such as increasing the funds' issuer concentration, while simultaneously migrating the portfolios to a mix of 80% long-term 'BBB' bonds and 20% high yield bonds, did the asset coverage available to the VRDP Shares fall below the 'AAA' threshold, and instead passed at a 'AA' rating level.

Given the highly unlikely nature of the stress scenarios, and the minimal rating impact, Fitch views the funds' permitted investments, municipal issuer diversification framework and mandatory deleveraging mechanisms as consistent with an 'AAA' rating.

THE FUNDS

The funds are closed-end management investment companies regulated by the

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Investment Company Act of 1940. The funds currently invest primarily in investment grade quality municipal bonds.

NFA, a subsidiary of Nuveen Investments, is the funds' investment advisor, responsible for the funds' overall investment strategies and their implementation. NAM is a subsidiary of NFA and oversees the day-to-day operations of the funds. Nuveen Investments and its affiliates had approximately \$216 billion of assets under management as of June 30, 2013.

RATINGS SENSITIVITY

The ratings assigned to the VRDP shares may be sensitive to material changes in the leverage composition, portfolio credit quality or market risk of the funds, as described above. A material adverse deviation from Fitch guidelines for any key rating driver could cause ratings to be lowered by Fitch.

Certain terms of the Minimum VRDP Asset Coverage test and Effective Leverage Ratio are set forth in the fee agreements relating to the purchase agreements, which are renewed on a periodic basis. Changes to these terms that weaken the tests may have negative rating implications.

The short-term ratings assigned to the VRDP shares may also be sensitive to changes in the financial condition of the liquidity providers. A downgrade of the liquidity providers to 'F2' would result in a downgrade of the short-term ratings of the VRDP shares to 'F2,' absent other mitigants. A downgrade below 'F2', on the other hand, would not necessarily result in a downgrade of the short-term rating of the VRDP shares, given the features in the transactions that would result in a mandatory tender of the VRDP shares for remarketing, or purchase by the liquidity provider in the event of a failed remarketing.

The funds have the ability to assume economic leverage through derivative transactions which may not be captured by the funds' Minimum VRDP Asset Coverage test or Effective Leverage Ratio. The funds do not currently engage in derivative activities and do not envision engaging in material amounts of such activity in the future. In fact, such activity is limited by the funds' investment guidelines and could run counter to the funds'

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investment objectives of achieving tax-exempt income. Material derivative exposures in the future could have potential negative rating implications if it adversely affects asset coverage available to rated VRDP shares.

For additional information about Fitch rating guidelines applicable to debt and preferred stock issued by closed-end funds, please review the criteria referenced below, which can be found on Fitch's web site at 'www.fitchratings.com'.

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The sources of information used to assess this rating were the public domain and Nuveen Fund Advisors.

Opt-in to receive Fitch's forthcoming research on closed-end funds:

<http://pages.fitchemail.fitchratings.com/FAMCEFBlankOptin/>

Applicable Criteria and Related Research:

--'Rating Closed-End Fund Debt and Preferred Stock' (Aug. 14, 2013);

--'Global Rating Criteria for Asset-Backed Commercial Paper' (Nov. 8, 2012);

--'Municipal Closed-End Funds Diversify Funding and Moderate Rollover Risk' (Oct. 11, 2012);

--'Municipal CEFs Refinance Pre-Crisis ARPS' (May 3, 2012).

Applicable Criteria and Related Research:

Rating Closed-End Fund Debt and Preferred Stock

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=716220

Global Rating Criteria for Asset-Backed Commercial Paper

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=692299

Municipal Closed-End Funds Diversify Funding and Moderate Rollover Risk

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=691173

Municipal CEFs Refinance Pre-Crisis ARPS

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=677576

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=803358

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