

Fitch Rates Nuveen Muni CEF Preferred Shares

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings takes the following rating actions on the Variable Rate MuniFund Term Preferred Shares (VMTP Shares) issued by two Nuveen closed-end municipal funds in connection with the refinancing described below:

Nuveen New York Dividend Advantage Municipal Fund (NAN):

--\$56,000,000 of VMTP Shares, Series 2017, term redemption on July 1, 2017, rated 'AAA'.

Nuveen New York Dividend Advantage Municipal Fund 2 (NXK):

--\$38,000,000 of VMTP Shares, Series 2017, term redemption on July 1, 2017, rated 'AAA'.

The funds are managed by Nuveen Fund Advisors, LLC (NFA) and subadvised by Nuveen Asset Management, LLC (NAM).

KEY RATING DRIVERS

The 'AAA' long-term ratings of the VMTP Shares of NAN and NXK primarily reflect:

--Sufficient asset coverage provided to the preferred 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.

THE REFINANCINGS

The two funds will use the proceeds of the VMTP Share issuances to fully refinance all of their outstanding MuniFund Term Preferred Shares (MTP Shares). Fitch expects the proceeds of the newly issued VMTP Shares to be deposited irrevocably in an escrow account with the MTP Shares redemption agent pending the required 10-day notification period to the MTP shareholders and accordingly the issuance of new VMTP Shares will not adversely affect the ratings of the MTP Shares while they remain outstanding. For each fund, the amount deposited with the redemption agent will equal at least the liquidation preference of the MTP Shares and any accrued and unpaid dividends. When the notification requirement has passed, the outstanding MTP Shares are expected to be redeemed using the escrowed VMTP Share proceeds and then marked paid in full by Fitch.

OVER-COLLATERALIZATION TESTS

As of April 23, 2014, the funds' asset coverage ratios for total outstanding preferred shares, as calculated in accordance with the Investment Company Act of 1940, were in excess of the Minimum Asset Coverage of 225% required by the funds' governing documents for the VMTP Shares.

As of the same date, the funds' Effective Leverage Ratios were below the 45% maximum Effective Leverage tests allowed by the funds' governing documents for the VMTP Shares.

STRUCTURAL PROTECTIONS

Compliance with the Asset Coverage and Effective Leverage thresholds is tested periodically. A breach of the Asset Coverage threshold requires the funds to redeem sufficient VMTP Shares to restore compliance. A breach of the Effective Leverage threshold requires the fund to redeem a sufficient number of preferred shares or reduce the amount of tender option bonds (TOBs) in order to restore compliance.

For the Asset Coverage and Effective Leverage Ratio tests, the total market value exposure periods (i.e. the pre-specified time period allotted for valuation, cure and redemption in the event of a breach) are within the 60 business day Fitch criteria guidelines.

STRESS TESTS

Fitch performed various stress tests on the funds to assess the strength of the structural protections available to the preferred 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 preferred shares fall below the 'AAA' long-term rating level, and instead passed at an 'AA' long-term rating level.

Given the relative conservatism 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' long-term rating.

THE FUNDS

The funds are closed-end management investment companies regulated by the Investment Company Act of 1940. The investment advisor is NFA, a subsidiary of Nuveen Investments. NFA is responsible for the funds' overall investment strategies and their implementation. The sub-advisor, NAM, is a subsidiary of NFA that oversees the day-to-day operations of the funds. Nuveen Investments and its affiliates had nearly \$225 billion of assets under management as of March 31, 2014.

RATINGS SENSITIVITY

The ratings assigned to the preferred 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.

The funds have the ability to assume economic leverage through derivative transactions which may not be captured by the funds' Minimum 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' 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 preferred 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:

--'Fitch: Minimal Impact on Nuveen CEFs from TIAA Acquisition' (April 15, 2014);

--'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=721566

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=832784

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