

Research



SIFMATM

Securities Industry and
Financial Markets Association

Municipal Bond Credit Report

The *Municipal Bond Credit Report* synthesizes, analyzes and presents aggregate credit information and trends in the municipal bond market. The report includes municipal bond rating information from the three major rating agencies – Moody's Investor Services, Standard and Poor's and Fitch Ratings.

March 2009

Contributors

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Market Summary

The U.S. financial markets continued to struggle in the first quarter due to a slowing economy, nearly frozen credit markets and declining home prices. Investors continued to favor Treasuries, which negatively impacted the municipal bond market. Another contributing factor to the decline in Treasury yields was the Federal Reserve Bank's purchase of Treasuries in an effort to bring down borrowing costs. The yield ratio of AAA-rated 10-year municipals to that of comparable 10-year Treasury securities ended the first quarter of 2009 at 127 percent. By the end of February, 2009, the ratio fell to 114 percent, which was still above the pre-crisis average of 85 percent in 2007. AAA-rated municipal bond yields ended 4Q'08 at 3.45 percent, down from 3.91 percent at the end of December and 3.79 percent at the end of the same year-earlier period.

The SIFMA Municipal Swap Index yield declined to 0.54 percent at end-December compared to 0.90 percent on September 24. As of May 13, the current 52 week average was 1.55 percent.

Although municipal bond issuance picked up in 1Q'09 from the previous quarter, issuance was still relatively low due, in part, to rating downgrades of monoline bond insurers. Long-term municipal bond issuance was \$85.0 billion in the first quarter of 2009, a 21.4 percent increase from the previous quarter's level of \$70.0 billion, but slightly less than the \$85.4 billion issued in the same year-earlier period.¹ Issuance in January and February was quite low and then jumped 65.2 percent to \$38.5 billion in March 2009 from January's level of \$23.2 billion and February's level of \$23.3 billion.

Issuers' use of bond insurance had been declining the last couple years and continued to decline into the first quarter of 2009. Only 12.9 percent of all new issues carried bond insurance in the first quarter compared to 18.5 percent in the previous quarter and 26.8 percent in the same year-earlier period. Letters of credit from domestic banks also decreased over the previous year, from 6.7 percent to 5.7 percent. Issuance of variable rate demand obligations accounted for 8.6 percent of total municipal issuance in the first quarter of 2009, down from 27.1 percent in the previous quarter, while fixed-rate issuance increased from 70.7 percent to 89.4 percent. Unenhanced new issues on a dollar volume basis rated Aaa by Moody's Investors Services declined to 10.2 percent in the first quarter of 2009 from 15.4 percent in the same year-earlier period, and those rated AAA by Standard & Poor's went from 23.9 percent to 22.2 percent.

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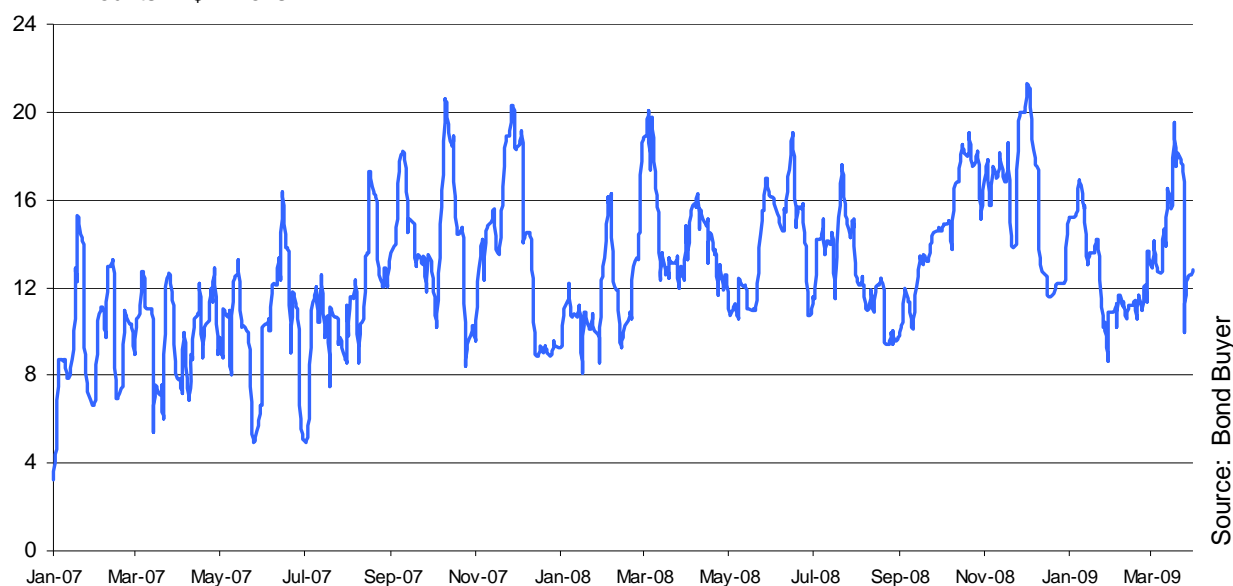
¹ All issuance data in the market summary was provided by Thomson Reuters.

Credit Quality Trends

In March 2009, a report released by the Nelson A. Rockefeller Institute of Government showed total tax revenue declined by 3.6 percent in the final quarter of 2008 compared to the same year-earlier period. Of the 47 states that reported state revenue data early, 35 states experienced a decrease in total tax revenue and 21 states recorded decreases in all three major sources of tax revenue - sales, personal income, and corporate income. To close budget shortfalls New York and California approved multibillion-dollar tax increases earlier this year and at least ten states are considering similar measures. With a weakening economy, increasing unemployment and declining home prices most states expect state fiscal conditions to continue to deteriorate in fiscal 2009.

Bond Buyer 30-day Visible Supply*

Amounts in \$ Billions



Source: Bond Buyer

*As of March 31, 2009

Long-Term Municipal State Issuance by Type

As of March 31, 2009

Amounts in \$ Millions

State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue
Alabama	452.7	300.0	152.7	Kentucky	1,677.8	115.0	1,562.8	Ohio	2,443.7	646.1	1,797.6
Alaska	185.1	57.0	128.1	Louisiana	392.2	78.3	313.9	Oklahoma	395.7	134.0	261.7
Arizona	1,899.2	848.2	1,051.0	Maine	60.1	-	60.1	Oregon	1,968.6	772.2	1,196.4
Arkansas	501.0	466.0	35.0	Maryland	1,277.0	970.5	306.5	Pennsylvania	3,758.4	2,394.8	1,363.6
California	15,076.9	9,388.8	5,688.1	Massachusetts	2,458.6	975.4	1,483.2	Puerto Rico	250.0	-	250.0
Colorado	1,463.4	630.0	833.4	Michigan	1,139.5	356.4	783.1	Rhode Island	396.0	191.4	204.6
Connecticut	1,584.2	1,127.4	456.8	Minnesota	1,305.6	1,042.1	263.5	South Carolina	423.1	209.7	213.4
D. of Columbia	1,608.8	-	1,608.8	Mississippi	427.2	191.4	235.8	South Dakota	65.8	46.3	19.5
Delaware	414.4	343.1	71.3	Missouri	1,125.9	438.0	687.9	Tennessee	1,574.4	841.6	732.8
Florida	3,224.4	633.9	2,590.5	Montana	51.0	42.1	8.9	Texas	6,129.1	2,582.1	3,547.0
Georgia	1,892.9	888.0	1,004.9	Nebraska	695.0	406.4	288.6	Utah	911.9	547.3	364.6
Guam	-	-	-	Nevada	706.9	519.2	187.7	Vermont	68.8	50.5	18.3
Hawaii	142.5	-	142.5	New Hampshire	185.3	33.1	152.2	Virginia	1,994.4	619.5	1,374.9
Idaho	432.6	7.2	425.4	New Jersey	1,255.2	685.0	570.2	Virgin Islands	-	-	-
Illinois	3,804.6	1,930.6	1,874.0	New Mexico	314.1	-	314.1	Washington	1,600.7	1,067.1	533.6
Indiana	1,436.4	16.2	1,420.2	New York	9,693.9	1,801.3	7,892.6	West Virginia	190.0	37.7	152.3
Iowa	706.9	325.2	381.7	North Carolina	2,397.2	1,106.0	1,291.2	Wisconsin	2,981.5	981.5	2,000.0
Kansas	454.3	309.5	144.8	North Dakota	31.6	6.8	24.8	Wyoming	7.8	7.8	-

G.O. Issuance 36,992.6
Revenue Issuance 48,466.1
Total LT Issuance 85,458.7

Source: Thomson Reuters

Outstanding, Ratings and Insured Volume by State

As of April 1, 2009

\$ Billions	Outstanding ¹	Moody's	S&P	Fitch	\$ Insured ²	% Insured	AMBAC	MBIA	FGIC	FSA
ALABAMA	32.27	Aa2	AA	AA	16.18	50.1%	5.19	3.34	2.11	3.18
ALASKA	12.28	Aa2	AA+	AA	6.20	50.5%	0.77	3.08	1.20	1.01
ARIZONA	55.66	Aa3	AA	NR	22.69	40.8%	4.72	7.24	5.66	4.43
ARKANSAS	13.25	Aa2	AA	AAA	5.11	38.6%	1.64	1.01	0.52	1.29
CALIFORNIA	474.07	A2	A	A+	241.11	50.9%	49.22	89.61	39.96	53.62
COLORADO	57.73	NR	AA	NR	30.50	52.8%	4.39	12.02	3.56	7.80
CONNECTICUT	42.35	Aa3	AA	AA	16.96	40.0%	3.41	7.20	2.37	3.01
D. OF COLUMBIA	25.29	A1	A+	A+	13.70	54.2%	2.28	4.99	2.84	3.22
DELAWARE	7.99	Aaa	AAA	AAA	1.83	22.9%	0.68	0.52	0.37	0.22
FLORIDA	167.73	Aa1	AAA	AA+	85.30	50.9%	21.22	26.86	14.81	18.76
GEORGIA	71.36	Aaa	AAA	AAA	25.36	35.5%	3.54	9.36	3.96	7.14
HAWAII	12.84	Aa2	AA	AA	12.69	98.8%	2.00	5.69	2.71	2.10
IDAHO	7.39	Aa2	AA	NR	2.40	32.5%	0.33	0.89	0.39	0.66
ILLINOIS	141.00	Aa3	AA-	AA-	84.03	59.6%	15.10	28.20	16.20	20.61
INDIANA	52.36	Aa1	AAA	NR	28.23	53.9%	4.98	10.10	4.06	8.14
IOWA	19.02	Aa1	AAA	AA+	7.10	37.3%	3.16	1.34	0.32	1.35
KANSAS	20.66	Aa1	AA+	NR	9.71	47.0%	1.57	3.74	1.32	2.50
KENTUCKY	36.21	Aa2	AA-	NR	14.47	40.0%	2.84	5.63	1.82	3.51
LOUISIANA	32.80	A1	A+	A+	17.64	53.8%	5.26	4.94	3.01	3.05
MAINE	9.03	Aa3	AA	AA	3.62	40.1%	1.08	1.00	0.26	1.19
MARYLAND	43.91	Aaa	AAA	AAA	7.68	17.5%	1.69	1.94	1.03	2.19
MASSACHUSETTS	91.90	Aa2	AA	AA	39.17	42.6%	9.31	12.72	4.35	10.86
MICHIGAN	82.87	Aa3	AA-	AA-	48.85	58.9%	6.97	16.71	8.95	14.71
MINNESOTA	49.02	Aa1	AAA	AAA	14.15	28.9%	2.05	5.09	1.02	4.76
MISSISSIPPI	18.90	Aa3	AA	AA	5.38	28.5%	1.54	1.22	0.87	1.31
MISSOURI	44.94	Aaa	AAA	AAA	17.64	39.3%	4.56	6.04	1.76	3.97
MONTANA	6.27	Aa2	AA	AA	1.25	19.9%	0.61	0.40	0.01	0.11
NEBRASKA	16.87	NR	AA+	NR	6.49	38.5%	1.62	2.37	1.14	1.22
NEVADA	30.91	Aa1	AA+	AA+	20.45	66.2%	4.45	6.79	3.90	4.75
NEW HAMPSHIRE	14.14	Aa2	AA	AA	3.79	26.8%	0.62	1.49	0.43	0.95
NEW JERSEY	110.62	Aa3	AA	AA-	67.23	60.8%	13.34	23.43	8.99	19.04
NEW MEXICO	15.89	Aa1	AA+	NR	3.96	24.9%	1.75	0.55	0.41	0.99
NEW YORK	319.47	Aa3	AA	AA-	112.57	35.2%	21.69	37.17	18.86	28.71
N. CAROLINA	55.90	Aaa	AAA	AAA	13.35	23.9%	3.81	4.49	1.11	3.47
N. DAKOTA	4.11	Aa2	AA+	NR	1.85	45.0%	0.69	0.71	0.10	0.22
OHIO	90.64	Aa1	AA+	AA+	34.70	38.3%	6.71	12.05	5.77	8.69
OKLAHOMA	19.13	Aa3	AA+	AA	7.90	41.3%	2.25	2.81	1.11	0.89
OREGON	34.99	Aa2	AA	AA	18.65	53.3%	2.60	5.65	4.21	5.64
PENNSYLVANIA	135.39	Aa2	AA	AA	76.39	56.4%	14.45	20.42	12.02	24.53
PUERTO RICO	72.16	Baa3	BBB-	NR	20.61	28.6%	5.88	4.16	4.58	4.69
RHODE ISLAND	14.12	Aa3	AA	AA-	6.05	42.8%	1.70	1.59	0.47	1.73
S. CAROLINA	37.11	Aaa	AA+	AAA	16.51	44.5%	4.42	4.01	1.10	5.45
S. DAKOTA	4.99	NR	AA	NR	1.26	25.3%	0.24	0.24	0.07	0.64
TENNESSEE	45.98	Aa1	AA+	AA+	13.30	28.9%	2.65	5.38	1.24	3.20
TEXAS	275.02	Aa1	AA	AA+	91.67	33.3%	19.91	30.59	12.86	22.15
UTAH	21.66	Aaa	AAA	AAA	6.28	29.0%	2.70	1.43	0.49	1.45
VERMONT	5.91	Aaa	AA+	AA+	3.89	65.8%	2.18	0.51	0.08	1.01
VIRGIN ISLANDS	1.76	NR	NR	NR	0.59	33.5%	0.06	0.00	0.22	0.10
VIRGINIA	59.21	Aaa	AAA	AAA	10.89	18.4%	1.66	4.73	0.95	3.26
WASHINGTON	70.60	Aa1	AA+	AA	47.52	67.3%	7.02	18.28	6.75	13.76
WEST VIRGINIA	11.18	Aa3	AA-	AA-	5.22	46.7%	0.99	2.08	1.52	0.61
WISCONSIN	44.99	Aa3	AA	AA-	20.65	45.9%	2.41	7.07	2.55	7.29
WYOMING	3.86	NR	AA+	NR	0.36	9.3%	0.19	0.09	0.00	0.07

Sources: Bloomberg Finance L.P., Fitch

¹ The total amount of all outstanding bonds in the corresponding state that are not advanced refunded

² The total amount of all outstanding bonds in the corresponding state that are not insured and not advanced refunded

Long-Term Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of March 31, 2009

Amounts in \$ Millions

General Obligation

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	25.5	537.6	2,007.0	1,894.7	1,153.7
Aa	4,729.1	3,669.3	5,022.2	2,392.4	2,437.8
A	6,662.5	370.7	70.1	72.5	211.7
Baa	0.0	1.6	16.6	0.0	12.0
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	11,417.1	4,579.2	7,115.9	4,359.6	3,815.2
Not Rated	444.4	1,616.5	1,456.5	661.5	1,526.8
Totals	11,861.5	6,195.7	8,572.4	5,021.1	5,342.0
% of Total LT Volume	32.1%	16.7%	23.2%	13.6%	14.4%

Revenue

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	535.9	1,229.7	792.4	609.4	399.5
Aa	6,075.5	3,019.4	7,059.9	7,523.5	4,738.8
A	896.5	2,878.1	2,520.9	489.9	416.9
Baa	0.0	200.0	170.6	257.5	294.8
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	7,507.9	7,327.2	10,543.8	8,880.3	5,850.0
Not Rated	802.7	2,213.7	3,894.2	744.9	701.5
Totals	8,310.6	9,540.9	14,438.0	9,625.2	6,551.5
% of Total LT Volume	17.1%	19.7%	29.8%	19.9%	13.5%

Source: Thomson Reuters

Long-Term Unenhanced Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of March 31, 2009

Amounts in \$ Millions

General Obligation - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	25.5	407.6	1,951.9	1,894.7	1,153.7
Aa	4,131.6	3,176.5	3,605.1	2,184.3	2,091.6
A	6,662.4	336.1	70.1	72.5	196.2
Baa	0.0	1.6	16.6	0.0	12.0
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	10,819.5	3,921.8	5,643.7	4,151.5	3,453.5
Not Rated	212.5	1,188.3	562.5	323.6	1,013.4
Totals	11,032.0	5,110.1	6,206.2	4,475.1	4,466.9
% of Total LT Volume	35.3%	16.3%	19.8%	14.3%	14.3%

Revenue - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	62.3	182.2	474.3	250.0	308.9
Aa	5,014.8	1,946.0	4,778.0	4,593.7	3,489.9
A	896.5	2,777.1	2,470.7	489.9	416.9
Baa	0.0	200.0	170.6	250.0	294.9
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	5,973.6	5,105.3	7,893.6	5,583.6	4,510.6
Not Rated	607.0	1,009.3	2,932.7	458.5	550.6
Totals	6,580.6	6,114.6	10,826.3	6,042.1	5,061.2
% of Total LT Volume	19.0%	17.7%	31.3%	17.5%	14.6%

Source: Thomson Reuters

Long-Term Municipal Issuance - General Obligation

General Use of Proceeds

By Moody's Rating Category

As of March 31, 2009

Amounts in \$ Millions

Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	1,121.0	32	8,087.6	223	434.7	52	30.2	11	12.0	2	3,326.3	461	13,011.8	781
General Purpose	4,133.9	50	8,372.1	207	6,926.9	51	18.1	25	18.1	5	1,424.3	247	20,893.4	585
Utilities	196.1	3	659.7	20	14.5	4	0.0	0	0.0	0	436.6	97	1,306.9	124
Public Facilities	125.9	1	134.5	3	0.0	0	0.0	0	0.0	0	2.0	2	262.4	6
Transportation	0.0	0	549.5	10	12.7	5	0.0	0	0.0	0	80.7	11	642.9	26
Housing	10.0	1	3.2	1	0.0	0	0.0	0	0.0	0	50.0	1	63.2	3
Other	31.6	3	451.7	26	23.7	7	0.0	0	0.0	0	304.9	56	811.9	92
Totals	5,618.5	90	18,258.3	490	7,412.5	119	30.1	7	30.1	7	5,643.1	875	36,992.6	1,588
% of Total LT G.O.	15.2%	5.7%	49.4%	30.9%	20.0%	7.5%	0.1%	0.4%	0.1%	0.4%	15.3%	55.1%	100.0%	100.0%

Source: Thomson Reuters

Long-Term Municipal Issuance - Revenue

General Use of Proceeds

By Moody's Rating Category

As of March 31, 2009

Amounts in \$ Millions

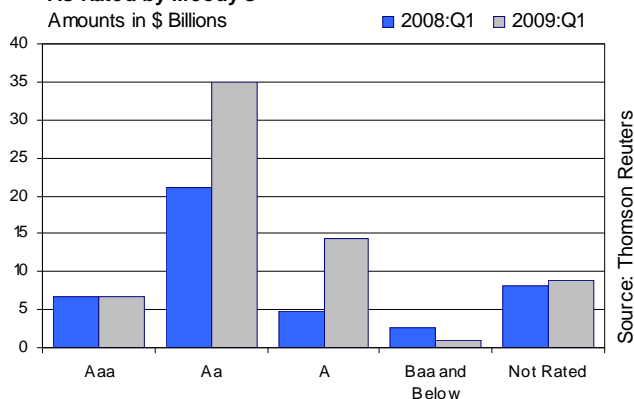
Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	473.9	9	7,174.7	113	2,017.0	17	61.1	1	0.0	0	1,089.7	78	10,816.4	218
General Purpose	87.1	2	3,290.9	46	1,783.1	13	9.7	2	0.0	0	2,676.7	70	7,847.5	133
Utilities	1,205.1	9	9,202.1	74	1,453.3	13	558.9	9	0.0	0	823.7	82	13,243.1	187
Public Facilities	0.0	0	852.0	6	0.5	1	0.0	0	0.0	0	17.5	2	870.0	9
Transportation	326.2	4	3,299.4	30	481.2	3	149.3	1	0.0	0	332.0	10	4,588.1	48
Housing	161.3	4	802.0	12	42.5	1	0.0	0	0.0	0	484.7	16	1,490.5	33
Other	1,531.7	20	3,965.8	55	1,623.5	14	143.8	5	0.0	0	2,345.7	65	9,610.5	159
Totals	3,785.3	48	28,586.9	336	7,401.1	62	922.8	18	0.0	0	7,770.0	323	48,466.1	787
% of Total LT Rev.	7.8%	6.1%	59.0%	42.7%	15.3%	7.9%	1.9%	2.3%	0.0%	0.0%	16.0%	41.0%	100.0%	100.0%

Source: Thomson Reuters

Long-Term Unenhanced Issuance

As Rated by Moody's

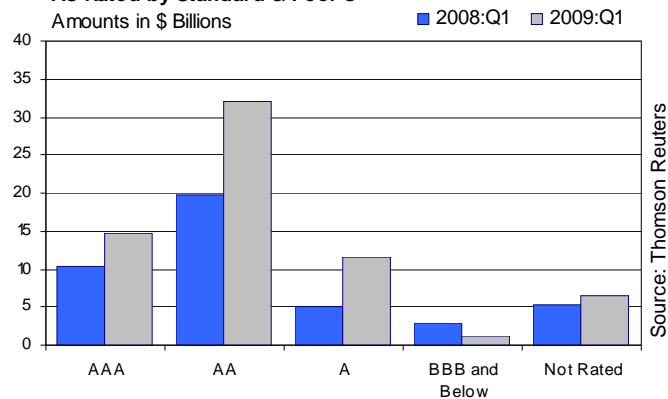
Amounts in \$ Billions



Long-Term Unenhanced Issuance

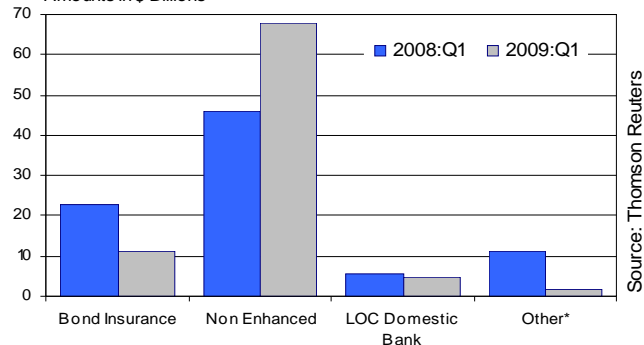
As Rated by Standard & Poor's

Amounts in \$ Billions



Long-Term Municipal Issuance by Enhancement Type

Amounts in \$ Billions



Total Issued with Credit Enhancement (2008) \$39.6 B; (2009) \$17.7 B

Total Long-Term Issuance: (2008) \$85.4 B; (2009) \$85.5 B

*Includes Standby Purchase Agreement, Mortgage-backed, LOC Foreign Bank, Investment Agreement and Guaranteed

A Description of Terminology in the Municipal Bond Credit Report^{2 3}

Long-Term Municipal Issue: municipal securities with a maturity of 13 months or longer at the time the municipal security is issued.⁴ Unless otherwise noted, issuance volume is stated in millions of dollars.

General Obligation or G.O. Bonds: bonds issued by state or local units of government. The bonds are secured by the full faith, credit and taxing power of the municipal bond issuer. Such bonds constitute debts by the issuer and often require approval by election prior to issuance. In the event of default, bondholders of G.O. bonds have the right to compel a tax levy or legislative appropriation to cover debt service.

Revenue Bonds: bonds payable from a specific source of revenue and to which the full faith and credit of an issuer and its taxing power are not pledged. Revenue bonds are payable from identified sources of revenue and do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Pledged revenues may be derived from sources such as the operation of the financed project, grants or a dedicated specialized tax. Generally, no voter approval is required prior to issuance of such obligations.

Ratings: are evaluations of the credit quality of bonds and other debt financial instruments made by rating agencies. Ratings are intended to measure the probability of the timely repayment of principal and interest on municipal securities. Ratings are typically assigned upon initial bond issuance. Ratings are periodically reviewed and may be amended to reflect changes in the issue or issuer's credit position. The ratings may be affected by the credit worthiness of the issuer itself or from a credit enhancement feature of the security such as guarantor, letter of credit provider, and bond insurer. Some rating agencies provide both long-term and short-term ratings on variable rate demand obligations. The ratings described herein are "long-term" ratings – that is, ratings applied to municipal bond issues with original maturity of 13 months or longer.

State Rating: indicates the G.O. credit rating a rating agency may apply to a state. The rating on a specific municipal bond issue or issuer located with the state may differ from the state rating.

Rating Agency: is a company that provides ratings that indicate the relative credit quality or liquidity characteristics of municipal securities as well as other debt securities. Moody's Investors Service ("Moody's") and Standard and Poor's are the largest agencies in terms of municipal securities rated, followed by Fitch Ratings.

Moody's Ratings⁵

Moody's describes its municipal credit ratings as "opinions of the investment quality of issuers and issues in the U.S. municipal and tax-exempt markets. These ratings incorporate a rating agency's assessment of the probability of default and loss severity of issuers and issues."

Moody's ratings are based upon the analysis of four primary factors relating to municipal finance: economy, debt, finances and administrative/management strategies. The rating classifications are defined as:

Aaa: the strongest creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Aa: very strong creditworthiness relative to other U.S. municipal or tax-exempt issues.

A: above-average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Baa: average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Ba: below-average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

B: weak creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Caa: very weak creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

Ca: extremely weak credit worthiness relative to other U.S. municipal or tax-exempt issues of issuers.

C: issuers or issues demonstrate the weakest credit worthiness relative to other U.S. municipal or tax-exempt issues of issuers.⁶

² The order of presentation is based on when the term first appears in the tables and graphs starting on page 2 of *The Municipal Bond Credit Report*.

³ Unless otherwise specified, the definitions are based on the definitions in the Municipal Securities Rulemaking Board *Glossary of Municipal Securities Terms* (2004).

⁴ Authors' own definition.

⁵ Moodys.com, "Ratings Definitions."

⁶ The lowest rating is a "D" at both Moody's and Standard and Poor's.

Standard and Poor's Ratings⁷

Standard and Poor's describes a municipal issue credit rating as "a current opinion of the credit worthiness with respect to a specific financial obligation(s) or a specific program. It takes into consideration the credit worthiness of credit enhancement on the obligation."

Long-term issue credit ratings are based on:

- Likelihood of payment—capacity and willingness to meet the financial commitment in accordance with the terms of the obligation;
- Nature of and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA: extremely strong capacity to meet its financial commitments – the highest rating category.

AA: very strong capacity to meet financial commitments.

A: strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the higher rated categories.

BBB: adequate capacity to meet its financial commitments though adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet financial commitments.

Rating "BB", "B", "CCC", and "CC" are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest.

BB: less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet its financial commitments.

B: an obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the capacity or willingness to meet financial obligations.

CCC: currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet financial commitments.

CC: highly vulnerable and is dependent upon favorable business, financial and economic conditions.

Fitch Ratings

Fitch Ratings provides an opinion on the ability of an entity or a securities issue to meet financial commitments such as interest, preferred dividends, or repayment of principal, on a timely basis.

Credit ratings are used by investors as indications of the likelihood of repayment in accordance with the terms on which they invested. Thus, the use of credit ratings defines their function: "investment grade" ratings (long-term 'AAA' - 'BBB' categories) indicate a relatively low probability of default, while those in the "speculative" or "non-investment grade" categories (international long-term 'BB' - 'D') may signal a higher probability of default or that a default has already occurred. Entities or issues carrying the same rating are of similar but not necessarily identical credit quality since the rating categories do not fully reflect small differences in the degrees of credit risk.

The ratings are based on information obtained directly from issuers, other obligors, underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed or withdrawn as a result of changes in, or the unavailability of, information or for any other reasons.

Credit ratings do not directly address any risk other than credit risk. In particular, these ratings do not deal with the risk of loss due to changes in interest rates and other market considerations.

Note: "Not rated" refers to municipal bonds that were not rated by one of the major rating agencies listed above.

⁷ Standardandpoors.com "Long-Term Issue Credit Ratings," May 17, 2002.

General Use of Proceeds: Refers to the type of project the proceeds or funds received from bond issuance are used. In the Municipal Bond Credit Report, the use of proceed classifications are general government use, education, water, sewer and gas, health care and a miscellaneous category, “other.”⁸

Geographic Regions⁹

The following states comprise the regions in this report

Far West: Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington, Wyoming

Midwest: Iowa, Illinois, Indiana, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, South Dakota, and Wisconsin

Northeast: Connecticut, District of Columbia, Delaware, Massachusetts, Maryland, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont

Southeast: Virginia, Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, West Virginia

Southwest: New Mexico, Texas, Utah, Arkansas, Arizona, Colorado, Kansas, Oklahoma

Municipal G.O. to Treasury Ratio: is a common measure of credit risk of municipal bonds relative to risk-free securities, Treasuries. It is a measure comparable to the “spread to Treasury” measure in the taxable markets. Note that the municipal yield is typically less than 100% of the Treasury yield due to the tax-free nature of municipal securities.

Credit Enhancement: is the use of the credit of an entity other than the issuer to provide additional security in a bond. The term is usually used in the context of bond insurance, bank letters of credit state school guarantees and credit programs of federal and state governments and federal agencies but also may apply more broadly to the use of any form of guaranty secondary source of payment or similar additional credit-improving instruments.

Bond Insurance: is a guaranty by a bond insurer of the payment of principal and interest on municipal bonds as they become due should the issuer fail to make required payments. Bond insurance typically is acquired in conjunction with a new issue of municipal securities, although insurance also is available for outstanding bonds traded in the secondary market.

Letter of Credit: a commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment. In municipal financings, bank letters of credit are sometimes used as additional sources of security with the bank issuing the letter of credit committing to in the event the issuer is unable to do so.

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⁸ Authors' own definition.

⁹ The geographic region definitions are taken from the definitions provided by Thomson Financial SDC database (the source of the data for the geographic region section of the report) which in turn sources the *Bond Buyer* newspaper.