

Research



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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.

June 2007

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Credit Quality Trends

Municipal bond credit quality maintained its favorable trend through the first quarter of 2007, based on solid state and local government fiscal conditions and supported by personal income and corporate tax receipt growth and higher property-tax assessments. At the end of March, 42 states had unexpected funds to work with as a result of higher-than-expected revenues and stable spending needs as they began crafting their FY 2008 budgets according to a recent report by the National Conference of State Legislatures. Property tax assessment growth is likely to moderate over the next several quarters as a result of weakening housing price trends. Moody's recently reported continued state revenue growth, leading to municipal upgrades outpacing downgrades by a 4.3 to 1 ratio. In addition, in a separate report, Moody's concluded that municipal bonds may be stronger credits relative to comparably rated taxable bonds based on municipal bonds' lower default rate experience. The critical financial management challenges at state and local governments are containing physical infrastructure expenses and funding post-employment benefit, healthcare, and education programs.

Total municipal bond issuance set a first quarter record in 2007. The absolute dollar volume of total Aaa rated issuance increased on a linked-quarter basis, reaching \$65.1 billion. On a dollar volume basis, the percentage of Aaa-rated municipal bond issuance fell to 60.9 percent in the first quarter of 2007 compared to 62.9 percent during the same period of 2006. In the quarter, 73.1 percent were rated Aa or above by Moody's. Based on dollar volume, 72.5 percent, or \$27.6 billion, of all long-term general obligation (G.O.) issuance were rated Aaa, compared to 73.9 percent in the same period in 2006, and 81.7 percent of all G.O. issues were rated Aa or better, lower than the 87.4 percent in the first quarter of 2006. Excluding unrated issues, nearly 75 percent of the first quarter's new G.O. issues were rated Aaa, and there were no issues rated below Baa. Within the revenue bond sector, 54.5 percent, or \$37.5 billion, were rated Aaa, and 13.9 percent were rated Aa compared to 56.5 and 16.5 percent, respectively, in the first quarter of 2006.

The favorable state and local credit quality trends have contributed to reduced use of bond insurance for credit enhancement during the past year compared to previous years. However, third-party credit enhancement continues to be an important characteristic of the municipal market as it supports market liquidity and investor participation. In the first quarter, 51.2 percent of all long-term new issues carried bond insurance, slightly higher than 49.5 percent in the first quarter of 2006. About 25.4 percent of unenhanced new issues on a dollar volume basis were rated Aaa by Moody's, and 26.4 percent were rated AAA by Standard & Poor's (S&P).

Regional Trends

While ratings on state general obligation debt remained consistently strong across regions, there were both positive and negative rating actions in the quarter. As of late May, G.O. debt for eleven states had the highest investment grade rating from at least one agency, and there were no G.O. issues rated below Baa during the quarter. The Midwest region had the highest percentage of its G.O. debt rated Aaa at 83.2 percent and accounted for 13.5 percent of the nation's overall Aaa rated issuance in the quarter. In contrast to the strong rating performance in the region, Michigan's G.O. rating was downgraded by Moody's to Aa3 from Aa2, due to the continued burden of balancing the state's budget amidst the economic downturn in the region affected by the weakness in the auto sector.

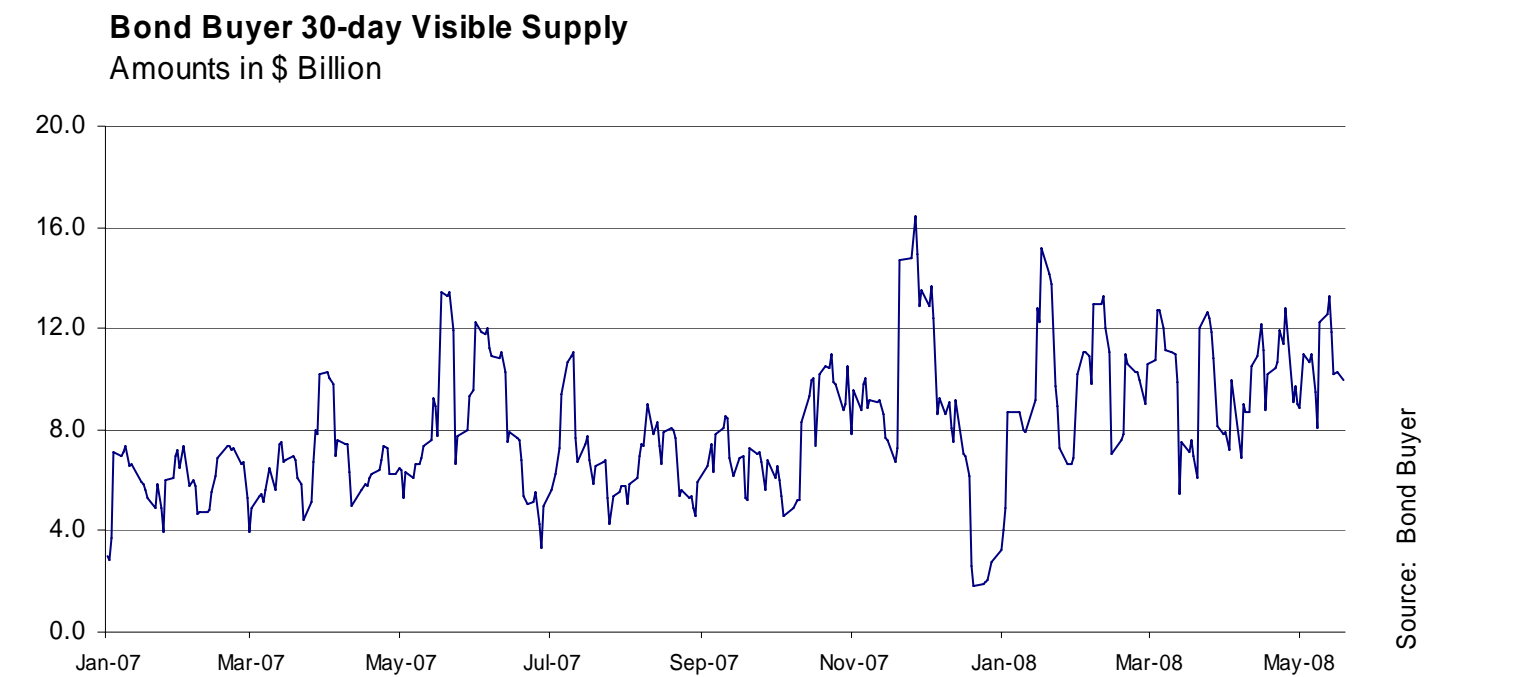
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Fitch placed the state's AA- rating on negative watch. The Southwest ranked second with 79.3 percent of the region's G.O. debt rated Aaa by Moody's. The Southeast and Northeast had 75.4 and 76.5 percent of their respective G.O. debt rated Aaa in the first quarter. Reflecting continued recovery from the devastating hurricanes of a few years ago, Moody's upgraded the city of New Orleans's unlimited-tax general obligation debt to Baa3 from Ba1 in May. S&P upgraded Maine's rating to AA from AA-, and Fitch upgraded the District of Columbia from A to A+. Fitch also revised its outlook for New York debt to positive, noting a possible upgrade in one to two years. S&P downgraded Puerto Rico's G.O. debt to BBB- from BBB with a negative outlook.

Municipal-to-Treasury Yield Ratios

The ratio of the AAA-rated, 10-year municipal yield to comparable maturity Treasury securities at the end of the quarter was at 82.3 percent, slightly higher than the 80.3 percent at the end of 2006, but virtually unchanged from the 82.2 percent ratio a year ago. The ratio is slightly lower at 80.6 as of mid-June, with municipal yields rising more slowly than Treasury benchmark yields. According to the Municipal Market Advisors' (MMA) Consensus scale, over the three month period ending May 22, yields across the maturity spectrum rose and prices fell, reflecting the general direction of interest rates. Compared to one year ago, short-term municipal yields rose slightly, while yields on the longer end (five years and beyond) were lower. The MMA Consensus scale presents cumulative changes in AAA-rated municipal bond prices and yields for each maturity on the yield curve based on input from buy-side and sell-side firms.



Long-Term Municipal State Issuance by Type

As of March 31, 2007

Amounts in \$ Million

State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue
Alabama	1,096.4	242.9	853.5	Kentucky	930.7	42.1	888.6	Ohio	2,932.4	1,193.3	1,739.1
Alaska	413.6	222.9	190.7	Louisiana	677.1	75.9	601.2	Oklahoma	673.6	263.7	409.9
Arizona	1,857.5	914.2	943.3	Maine	108.7	51.3	57.4	Oregon	1,796.1	1,294.6	501.5
Arkansas	246.7	42.4	204.3	Maryland	1,430.7	655.1	775.6	Pennsylvania	3,926.9	1,338.4	2,588.5
California	20,879.5	9,333.7	11,545.8	Massachusetts	4,113.9	753.7	3,360.2	Puerto Rico	2,534.9	50.0	2,484.9
Colorado	1,760.9	600.3	1,160.6	Michigan	1,378.4	1,060.3	318.1	Rhode Island	161.7	20.4	141.3
Connecticut	761.3	419.2	342.1	Minnesota	1,241.6	791.3	450.3	South Carolina	1,291.2	241.3	1,049.9
Delaware	719.6	-	719.6	Mississippi	634.4	122.7	511.7	South Dakota	22.0	7.0	15.0
D. of Columbia	194.8	-	194.8	Missouri	1,325.1	434.7	890.4	Tennessee	906.4	278.6	627.8
Florida	6,082.7	432.5	5,650.2	Montana	225.8	92.4	133.4	Texas	10,020.7	5,885.3	4,135.4
Georgia	2,364.9	1,217.5	1,147.4	Nebraska	1,786.9	166.6	1,620.3	Utah	829.1	215.5	613.6
Guam	-	-	-	Nevada	810.0	523.1	286.9	Vermont	151.3	44.5	106.8
Hawaii	737.4	472.4	265.0	New Hampshire	166.0	47.9	118.1	Virginia	647.6	543.5	104.1
Idaho	302.5	33.6	268.9	New Jersey	5,089.2	412.2	4,677.0	Virgin Islands	1,112.6	-	1,112.6
Illinois	3,527.0	2,123.6	1,403.4	New Mexico	326.7	171.8	154.9	Washington	3,082.5	1,002.6	2,079.9
Indiana	2,074.4	201.4	1,873.0	New York	7,446.6	1,088.8	6,357.8	West Virginia	304.2	-	304.2
Iowa	533.6	205.4	328.2	North Carolina	2,576.8	1,503.1	1,073.7	Wisconsin	1,775.6	864.6	911.0
Kansas	726.2	342.8	383.4	North Dakota	150.2	12.7	137.5	Wyoming	100.7	.7	100.0

G.O. Issuance 38,054.5

Revenue Issuance 68,912.8

Total LT Issuance 106,967.3

Sources: Thomson Financial Securities Data

Long-Term Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of March 31, 2007

Amounts in \$ Million

General Obligation

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	7,738.8	5,874.0	3,735.7	3,546.2	6,691.6
Aa	551.1	420.3	826.9	1,015.8	689.2
A	4,347.1	61.5	1.5	41.2	57.6
Baa	-	6.7	1.2	-	1.8
Below Baa	-	-	-	-	-
Total Rated	12,637.0	6,362.5	4,565.3	4,603.2	7,440.2
Not Rated	338.9	698.4	316.3	97.0	995.8
Totals	12,975.9	7,060.9	4,881.6	4,700.2	8,436.0
% of Total LT Volume	34.1%	18.6%	12.8%	12.4%	22.2%

Revenue

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	8,201.6	5,535.9	9,608.7	8,632.5	5,517.1
Aa	935.2	1,505.5	4,416.3	2,208.4	521.3
A	223.0	400.9	457.8	800.5	60.0
Baa	4,134.1	22.6	4,462.7	186.5	102.3
Below Baa	170.0	-	165.3	-	-
Total Rated	13,663.9	7,464.9	19,110.8	11,827.9	6,200.7
Not Rated	1,708.3	2,221.4	2,813.2	1,992.8	1,804.7
Totals	15,372.2	9,686.3	21,924.0	13,820.7	8,005.4
% of Total LT Volume	22.3%	14.1%	31.9%	20.1%	11.6%

Source: Thomson Financial Securities Data

Long-Term Unenhanced Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of March 31, 2007

Amounts in \$ Million

General Obligation - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	132.1	995.1	635.6	1,946.6	3,924.7
Aa	313.8	181.1	564.2	849.3	648.8
A	625.0	61.5	1.5	8.8	55.6
Baa	-	6.7	1.2	-	1.8
Below Baa	-	-	-	-	-
Total Rated	1,070.9	1,244.4	1,202.5	2,804.7	4,630.9
Not Rated	286.8	484.9	187.2	64.2	833.9
Totals	1,357.7	1,729.3	1,389.7	2,868.9	5,464.8
% of Total LT Volume	10.6%	13.5%	10.8%	22.4%	42.7%

Revenue - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	682.6	294.4	244.0	471.4	923.1
Aa	675.8	1,179.4	3,243.5	1,124.1	432.2
A	78.3	400.9	409.2	790.6	47.9
Baa	4,134.1	22.6	3,866.6	185.2	102.3
Below Baa	170.0	-	165.3	-	-
Total Rated	5,740.8	1,897.3	7,928.6	2,571.3	1,505.5
Not Rated	1,167.9	1,536.4	2,171.3	1,538.8	1,484.7
Totals	6,908.7	3,433.7	10,099.9	4,110.1	2,990.2
% of Total LT Volume	25.1%	12.5%	36.7%	14.9%	10.9%

Source: Thomson Financial Securities Data

Long-Term Municipal Issuance - General Obligation

General Use of Proceeds

By Moody's Rating Category

As of March 31, 2007

Amounts in \$ Million

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	16,315.8	515	1,496.1	47	68.8	23	-	-	-	-	1,256.1	189	19,136.8	774
General Purpose	8,649.7	310	1,556.7	61	4,390.6	21	7.9	3	-	-	548.9	121	15,153.8	516
Utilities	1,019.1	46	188.9	10	1.5	1	1.8	1	-	-	476.4	58	1,687.7	116
Public Facilities	617.9	42	30.6	5	48.0	5	-	-	-	-	74.1	46	770.6	98
Transportation	828.1	22	128.6	2	-	-	-	-	-	-	27.2	8	983.9	32
Housing	9.0	2	66.0	2	-	-	-	-	-	-	3.9	2	78.9	6
Other	146.7	5	36.4	4	-	-	-	-	-	-	59.8	14	242.9	23
Totals	27,586.3	942	3,503.3	131	4,508.9	50	9.7	4	-	-	2,446.4	438	38,054.6	1,565
% of Total LT G.O.	72.5%	60.2%	9.2%	8.4%	11.8%	3.2%	0.0%	0.3%	-	-	6.4%	28.0%	100.0%	100.0%

Source: Thomson Financial Securities Data

Long-Term Municipal Issuance - Revenue

General Use of Proceeds

By Moody's Rating Category

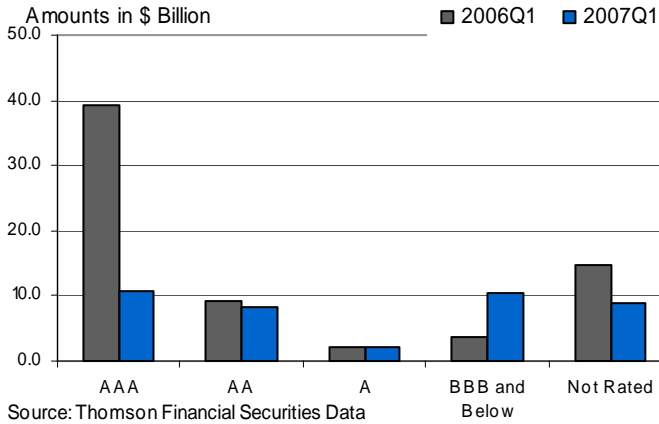
As of March 31, 2007

Amounts in \$ Million

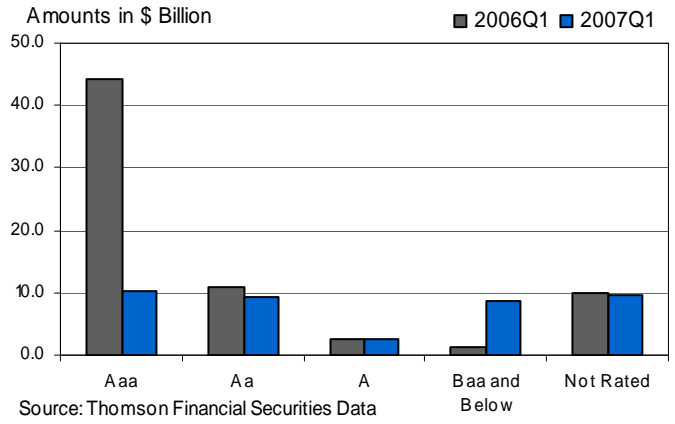
Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	9,774.6	163	1,581.8	53	494.5	15	163.5	6	-	-	1,233.4	72	13,247.8	309
General Purpose	4,111.1	88	1,369.5	16	24.9	5	7,428.8	2	-	-	1,777.7	113	14,712.0	224
Utilities	6,976.7	113	1,938.2	17	14.1	3	2.3	1	-	-	125.0	32	9,056.3	166
Public Facilities	1,998.7	34	283.6	16	15.2	1	-	-	-	-	379.2	22	2,676.7	73
Transportation	5,108.8	37	743.7	13	-	-	596.1	1	-	-	1,404.3	11	7,852.9	62
Housing	1,840.7	60	2,012.3	46	18.4	2	1.3	1	-	-	1,589.9	54	5,462.6	163
Other	7,685.2	82	1,657.6	37	1,375.1	21	716.2	16	335.3	2	4,030.9	173	15,800.3	331
Totals	37,495.8	577	9,586.7	198	1,942.2	47	8,908.2	27	335.3	2	10,540.4	477	68,808.6	1,328
% of Total LT Rev.	54.5%	43.4%	13.9%	14.9%	2.8%	3.5%	12.9%	2.0%	0.5%	0.2%	15.3%	35.9%	100.0%	100.0%

Source: Thomson Financial Securities Data

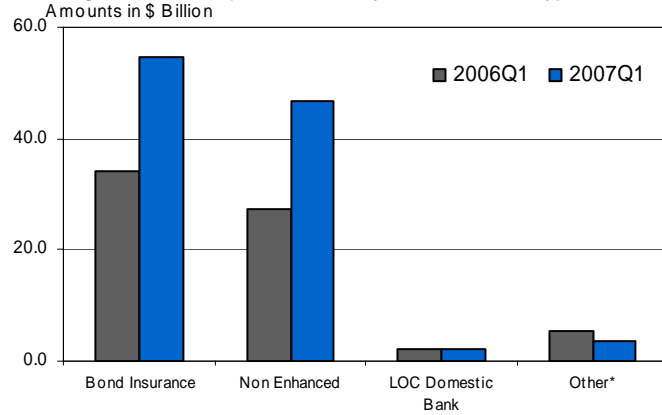
Long-Term Unenhanced Issuance As Rated by Standard & Poor's



Long-Term Unenhanced Issuance As Rated by Moody's



Long-Term Municipal Issuance by Enhancement Type



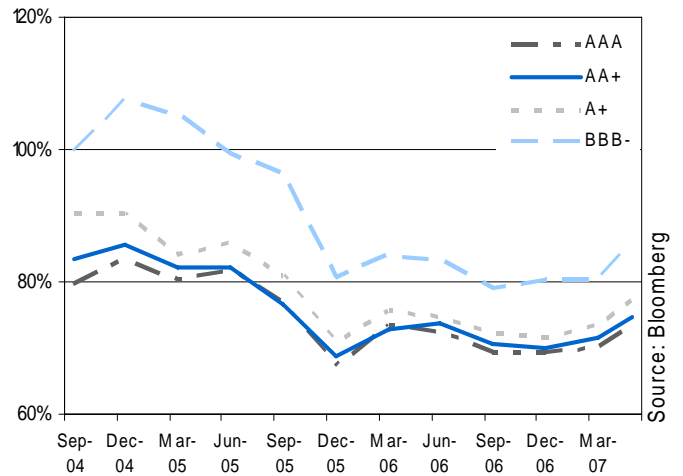
Total Issued with Credit Enhancement (2006Q1) \$41.8 B; (2007Q1) \$60.3 B

Total Long-Term Issuance: (2006Q1) \$69.0 B; (2007Q1) \$106.9 B

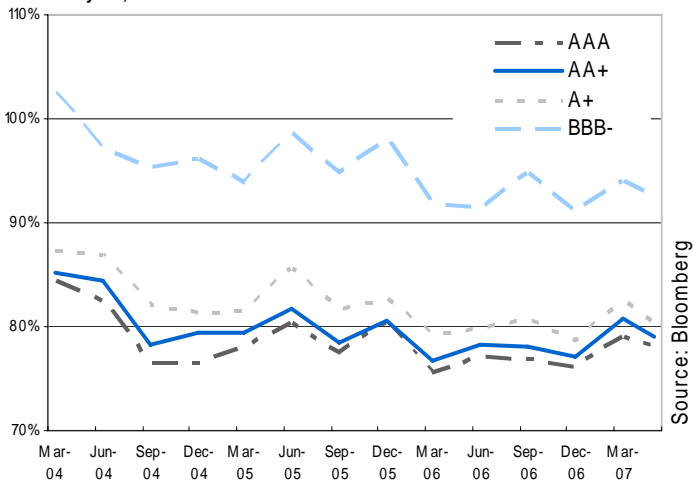
*Includes Standby Purchase Agreement, Mortgage-backed, LOC Foreign Bank, Investment Agreement and Guaranteed

Source: Thomson Financial Securities Data

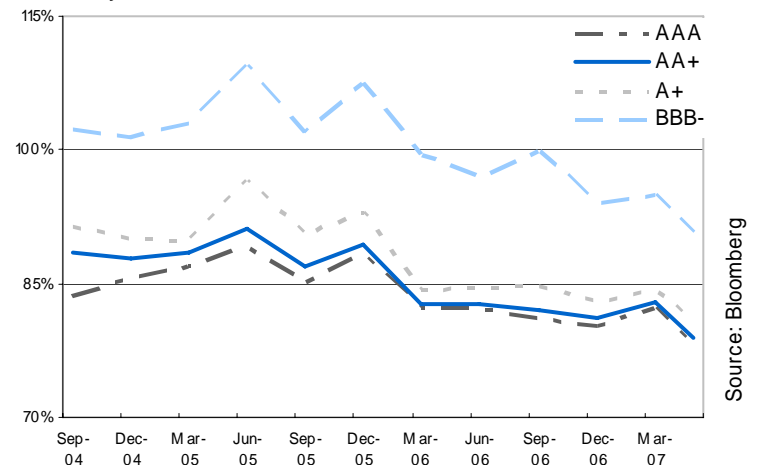
Municipal G.O. to Treasury Ratio - 3-M onth As of May 22, 2007

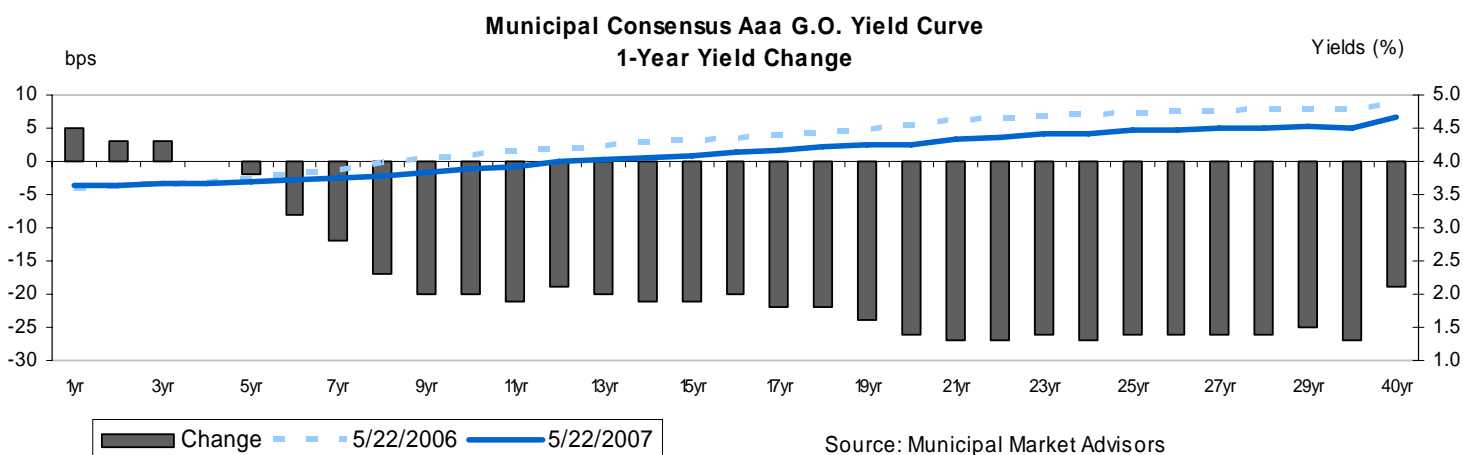
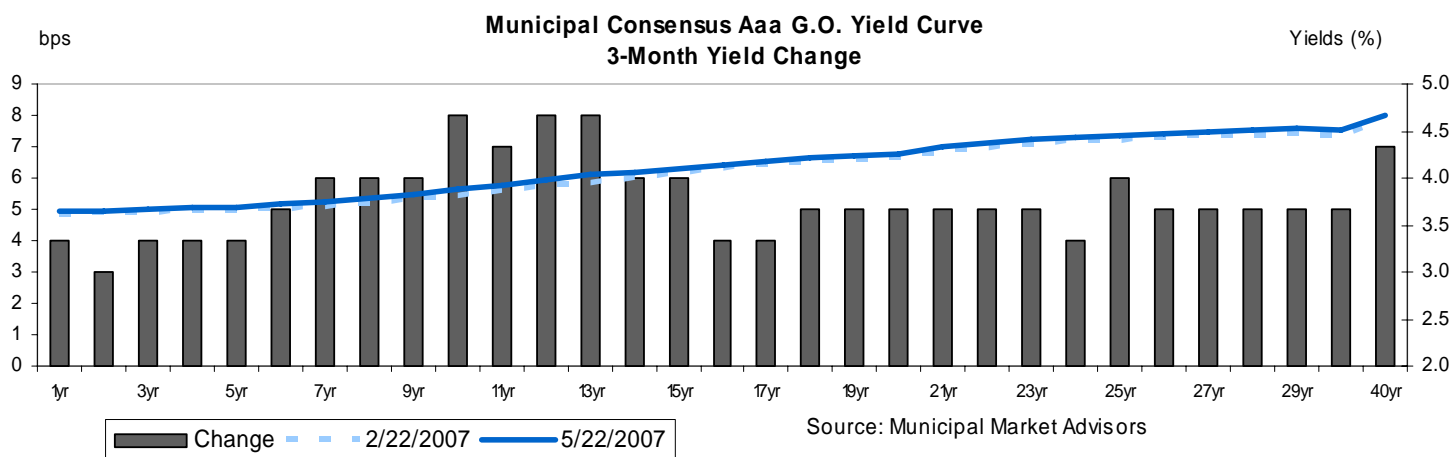


Municipal G.O. to Treasury Ratio - 5 Year As of May 22, 2007



Municipal G.O. to Treasury Ratio - 10 Year As of May 22, 2007





A Description of Terminology in the Municipal Bond Credit Report^{1 2}

Long-Term Municipal Issue: municipal securities with a maturity of 13 months or longer at the time the municipal security is issued³. Unless otherwise noted, the 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, the bondholders of G.O. bonds have the right to compel a tax levy or legislative appropriation to cover debt service.

Revenue 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

¹ 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*.

² Unless otherwise specified, the definitions are based on the definitions in the Municipal Securities Rulemaking Board *Glossary of Municipal Securities Terms* (2004).

³ Authors' own definition.

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 Ratings⁴

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.⁵

Standard and Poor’s Ratings⁶

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.

⁴ Moodys.com, “Ratings Definitions.”

⁵ The lowest rating is a “D” at both Moody’s and Standard and Poor’s.

⁶ Standardandpoors.com “Long-Term Issue Credit Ratings, May 17, 2002.

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 provide 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.

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.”⁷

Geographic Regions⁸

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.

⁷ Authors’ own definition.

⁸ 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.

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.