

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.

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Market Summary

All U.S. financial markets struggled in the third quarter of 2008 with a slowing economy, nearly frozen credit markets and declining home prices; the municipal bond market was no exception. Long-term municipal bond issuance in the third quarter fell 37.9 percent compared to the previous quarter. Rating downgrades of monoline bond insurers were a further negative factor in the market for municipal bonds.

Liquidity in the municipal market declined throughout the third quarter of 2008, due in large part to consolidation of several major municipal bond broker dealers. As result the SIFMA Municipal Swap Index yield jumped to 7.96 percent on September 24 compared to 1.63 percent on September 3.

The yield ratio of AAA-rated 10-year municipals to that of comparable Treasury securities often exceeded 100 percent during the third quarter of 2008. As of December 8, the triple-A rated municipal yield was 4.22 percent while a comparable treasury yielded 2.77 percent, a difference of 145 basis points. Yields ended at 4.16 percent in the third quarter of 2008, an increase from the 4.01 percent at the end of June and 3.79 percent at month-end March 2008.

With institutional demand dwindling, municipal bond issuance declined as the third quarter progressed. In the first three quarters of 2008, long-term municipal bond issuance reached \$321.5 billion, 0.9 percent lower than the same year-earlier period. Long-term issuance peaked in the second quarter at \$145.8 billion, and slowed considerably in the third quarter amid the broader credit market turmoil, with issuance falling to \$90.5 billion. Third quarter issuance was 37.9 percent lower than the prior quarter and 3.1 percent less than the \$93.4 billion issued in the third quarter of 2007. Municipal issuance in September was \$20.7 billion, a 36.3 percent decline from the prior month.

Outlook

As we enter the fourth quarter of 2008, municipal bond issuance will likely remain subdued. With an oversupply of bonds in the secondary market, any new municipal bond must be deeply discounted and offer a high yield to attract an investor. The largest institutional buyers, however, have not shown much interest to date.

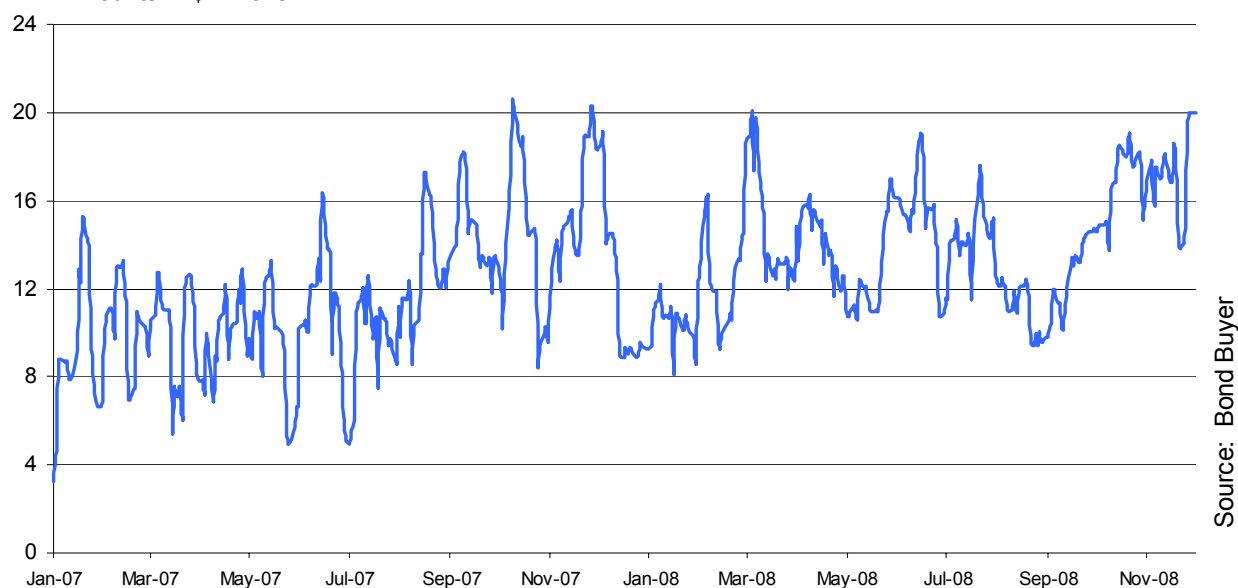
In June 2008, the Fiscal Survey of the States, released jointly by the National Governors Association and the National Association for State Budget Officers, reported that thirteen states had to reduce their budgets in fiscal 2008 up from only three states in fiscal 2007, but still well below the levels seen in 2002 and 2003 when 37 states made budget reductions. With a weakening economy and declining home prices most states expect significant declines in tax collections, including property taxes, as assessments are adjusted downwards.

Washington, DC
New York
London

www.sifma.org

Bond Buyer 30-day Visible Supply*

Amounts in \$ Billions



*As of December 1, 2008

Long-Term Municipal State Issuance by Type

As of September 30, 2008

Amounts in \$ Millions

Total				Total				Total			
State	Amount	G.O.	Revenue	State	Amount	G.O.	Revenue	State	Amount	G.O.	Revenue
Alabama	1,784.0	356.9	1,427.1	Kentucky	3,206.9	184.0	3,022.9	Ohio	8,762.4	1,310.0	7,452.4
Alaska	432.0	240.7	191.3	Louisiana	3,928.8	612.0	3,316.8	Oklahoma	1,982.2	611.3	1,370.9
Arizona	8,004.9	1,435.0	6,569.9	Maine	809.5	195.7	613.8	Oregon	2,945.6	615.5	2,330.1
Arkansas	933.8	367.5	566.3	Maryland	5,786.9	1,782.4	4,004.5	Pennsylvania	12,931.4	4,035.5	8,895.9
California	47,965.1	14,554.5	33,410.6	Massachusetts	9,920.4	1,787.9	8,132.5	Puerto Rico	8,234.9	2,937.9	5,297.0
Colorado	6,306.1	838.1	5,468.0	Michigan	7,835.9	2,594.9	5,241.0	Rhode Island	1,031.6	115.8	915.8
Connecticut	5,915.6	3,972.1	1,943.5	Minnesota	5,011.2	2,264.8	2,746.4	South Carolina	2,876.4	374.8	2,501.6
D. of Columbia	2,612.7	1,048.3	1,564.4	Mississippi	1,387.9	552.6	835.3	South Dakota	794.7	94.3	700.4
Delaware	596.3	292.6	303.7	Missouri	3,477.0	740.2	2,736.8	Tennessee	5,055.9	1,670.8	3,385.1
Florida	15,832.6	1,142.3	14,690.3	Montana	216.0	125.9	90.1	Texas	33,598.2	15,529.6	18,068.6
Georgia	6,536.0	1,602.0	4,934.0	Nebraska	1,995.1	462.2	1,532.9	Utah	2,752.8	581.9	2,170.9
Guam	-	-	-	Nevada	3,961.9	2,043.8	1,918.1	Vermont	912.8	50.0	862.8
Hawaii	581.0	468.5	112.5	New Hampshire	696.4	272.4	424.0	Virginia	5,347.9	1,415.2	3,932.7
Idaho	666.2	238.2	428.0	New Jersey	9,215.2	2,283.3	6,931.9	Virgin Islands	-	-	-
Illinois	12,702.2	3,822.8	8,879.4	New Mexico	2,512.0	480.3	2,031.7	Washington	7,335.3	3,225.5	4,109.8
Indiana	4,636.0	550.5	4,085.5	New York	32,299.5	8,920.3	23,379.2	West Virginia	1,150.0	16.1	1,133.9
Iowa	1,801.6	769.3	1,032.3	North Carolina	5,905.2	1,099.9	4,805.3	Wisconsin	5,148.6	2,724.7	2,423.9
Kansas	1,659.2	856.9	802.3	North Dakota	397.4	60.8	336.6	Wyoming	293.5	8.2	285.3

G.O. Issuance 94,336.7

Revenue Issuance 224,346.0

Total LT Issuance 318,682.7

Source: Thomson Reuters

The "Outstanding, Ratings and Insured Volume by State" table is not available in this report, but will be included in future publications.

Long-Term Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of September 30, 2008

Amounts in \$ Millions

General Obligation

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	4,041.9	6,428.3	9,843.6	4,668.7	10,114.3
Aa	11,392.3	4,840.6	13,656.2	3,525.2	5,610.6
A	5,452.2	1,353.3	600.1	72.5	645.6
Baa	0.0	34.4	2,670.6	4.2	41.4
Below Baa	0.0	74.7	0.0	0.0	0.0
Total Rated	20,886.4	12,781.8	26,774.1	8,508.8	16,419.4
Not Rated	812.3	2,673.8	920.7	561.8	4,341.7
Totals	21,698.7	15,455.5	27,694.8	9,070.6	20,761.1
% of Total LT Volume	22.9%	16.3%	29.3%	9.6%	21.9%

Revenue

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	18,412.3	14,557.5	19,293.8	17,040.6	12,106.6
Aa	14,589.7	12,030.7	19,476.5	13,094.7	8,711.1
A	2,884.2	3,290.9	8,827.1	5,892.4	8,334.3
Baa	381.2	468.5	2,978.0	859.8	466.7
Below Baa	83.3	0.0	261.4	176.5	0.0
Total Rated	36,351.7	30,576.2	51,289.9	37,078.3	29,636.4
Not Rated	6,916.1	6,923.9	12,237.6	7,242.6	7,706.9
Totals	43,267.7	37,500.1	63,527.5	44,320.9	37,343.3
% of Total LT Volume	19.1%	16.6%	28.1%	19.6%	16.5%

Source: Thomson Reuters

Long-Term Unenhanced Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of September 30, 2008

Amounts in \$ Millions

General Obligation - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	133.3	786.2	3,008.6	2,486.7	6,591.6
Aa	10,956.8	4,504.5	11,315.2	3,304.5	5,440.5
A	5,269.4	661.4	480.3	295.8	590.7
Baa	0.0	34.4	2,102.7	4.2	41.4
Below Baa	0.0	25.0	0.0	0.0	0.0
Total Rated	16,359.4	6,016.3	16,906.8	6,091.2	12,664.2
Not Rated	812.3	2,563.0	761.7	409.6	3,554.2
Totals	17,171.6	8,579.3	17,668.5	6,500.8	16,218.4
% of Total LT Volume	26.0%	13.0%	26.7%	9.8%	24.5%

Revenue - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	1,102.4	812.6	3,049.5	2,945.9	2,050.5
Aa	7,654.7	7,738.4	11,076.0	6,807.6	6,413.9
A	2,563.6	2,103.8	8,183.2	4,828.8	5,137.3
Baa	381.2	468.5	2,045.9	613.3	466.7
Below Baa	83.3	0.0	510.3	176.5	0.0
Total Rated	11,785.2	11,180.9	24,864.8	15,386.7	14,068.7
Not Rated	3,404.0	3,377.8	7,628.5	3,494.2	4,542.0
Totals	15,189.2	14,558.7	32,493.3	18,880.8	18,610.7
% of Total LT Volume	15.2%	14.6%	32.6%	18.9%	18.7%

Source: Thomson Reuters

Long-Term Municipal Issuance - General Obligation

General Use of Proceeds

By Moody's Rating Category

As of September 30, 2008

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	20,471.6	943	7,689.9	275	1,636.3	120	21.8	7	0.0	0	1,723.0	794	31,542.6	2,139
General Purpose	13,847.2	610	23,077.8	409	6,911.0	176	2,985.1	30	199.8	2	602.3	579	47,623.2	1,804
Utilities	990.9	106	1,304.2	40	56.8	16	24.0	8	0.0	0	981.5	152	3,357.4	322
Public Facilities	326.0	43	690.9	40	36.3	12	8.6	4	0.0	0	416.8	83	1,478.6	182
Transportation	655.8	27	2,810.4	38	67.6	13	1.6	2	0.0	0	146.0	10	3,681.4	90
Housing	144.7	4	222.7	8	1.0	1	0.0	0	0.0	0	204.8	7	573.2	20
Other	1,024.3	50	4,061.8	24	775.0	30	0.1	1	0.0	0	219.1	81	6,080.3	186
Totals	37,460.5	1,783	39,857.7	834	9,484.0	368	3,041.1	52	199.8	2	4,293.6	1,706	94,336.7	4,743
% of Total LT G.O.	39.7%	37.6%	42.3%	17.6%	10.1%	7.8%	3.2%	1.1%	0.2%	0.0%	4.6%	36.0%	100.0%	100.0%

Source: Thomson Reuters

Long-Term Municipal Issuance - Revenue

General Use of Proceeds

By Moody's Rating Category

As of September 30, 2008

Amounts in \$ Millions

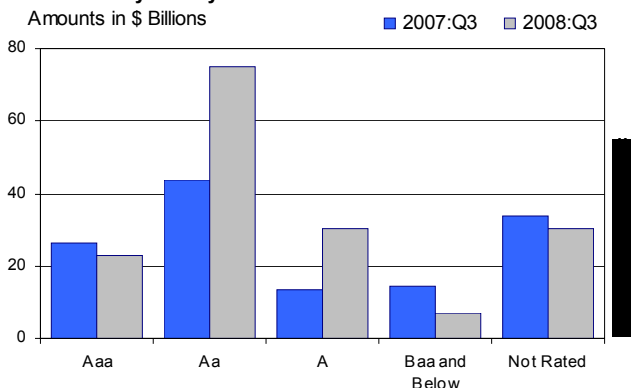
Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	20,649.8	285	9,756.6	270	3,731.8	74	297.1	11	71.4	1	5,281.8	317	39,788.5	958
General Purpose	5,544.1	121	5,227.6	82	2,961.8	46	1,521.7	7	188.3	2	4,843.5	325	20,287.0	583
Utilities	20,302.5	261	16,286.7	123	8,770.7	68	2,223.9	12	-	-	773.2	186	48,357.0	650
Public Facilities	2,790.2	42	1,394.5	19	904.7	12	0.0	0	-	-	306.4	46	5,395.8	119
Transportation	16,589.1	105	17,241.7	79	8,323.0	27	58.2	3	-	-	496.3	45	42,708.3	259
Housing	3,774.5	101	5,913.8	145	155.3	7	259.1	2	-	-	4,184.8	172	14,287.5	427
Other	20,487.5	262	15,659.6	191	8,818.7	86	1,479.5	28	510.3	2	6,566.3	446	53,521.9	1,015
Totals	90,137.7	1,177	71,480.5	909	33,666.0	320	5,839.5	63	770.0	5	22,452.3	1,537	224,346.0	4,011
% of Total LT Rev.	40.2%	29.3%	31.9%	22.7%	15.0%	8.0%	2.6%	1.6%	0.3%	0.1%	10.0%	38.3%	100.0%	100.0%

Source: Thomson Reuters

Long-Term Unenhanced Issuance

As Rated by Moody's

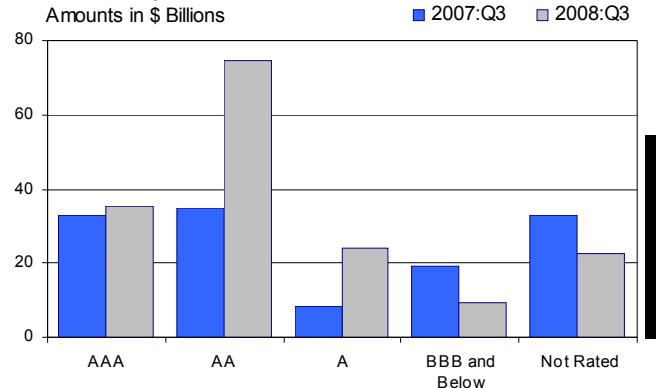
Amounts in \$ Billions



Long-Term Unenhanced Issuance

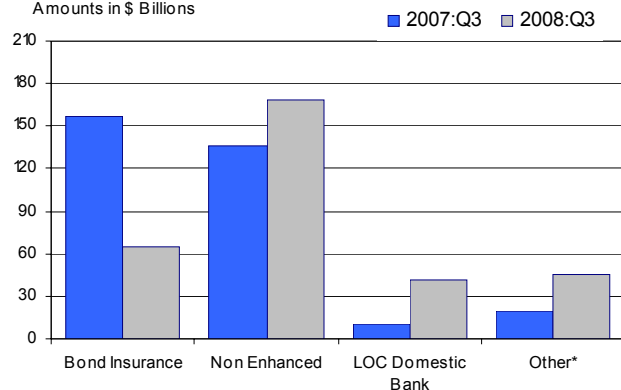
As Rated by Standard & Poor's

Amounts in \$ Billions



Long-Term Municipal Issuance by Enhancement Type

Amounts in \$ Billions



Total Issued with Credit Enhancement (2007) \$187.9 B; (2008) \$152.6 B

Total Long-Term Issuance: (2007) \$324.6 B; (2008) \$320.6 B

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

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 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

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.

⁴ Moodys.com, "Ratings Definitions."

⁵ The lowest rating is a "D" at both Moody's and Standard and Poor's.

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.

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.

⁶ 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.”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.

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.

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.