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RESEARCH REPORT

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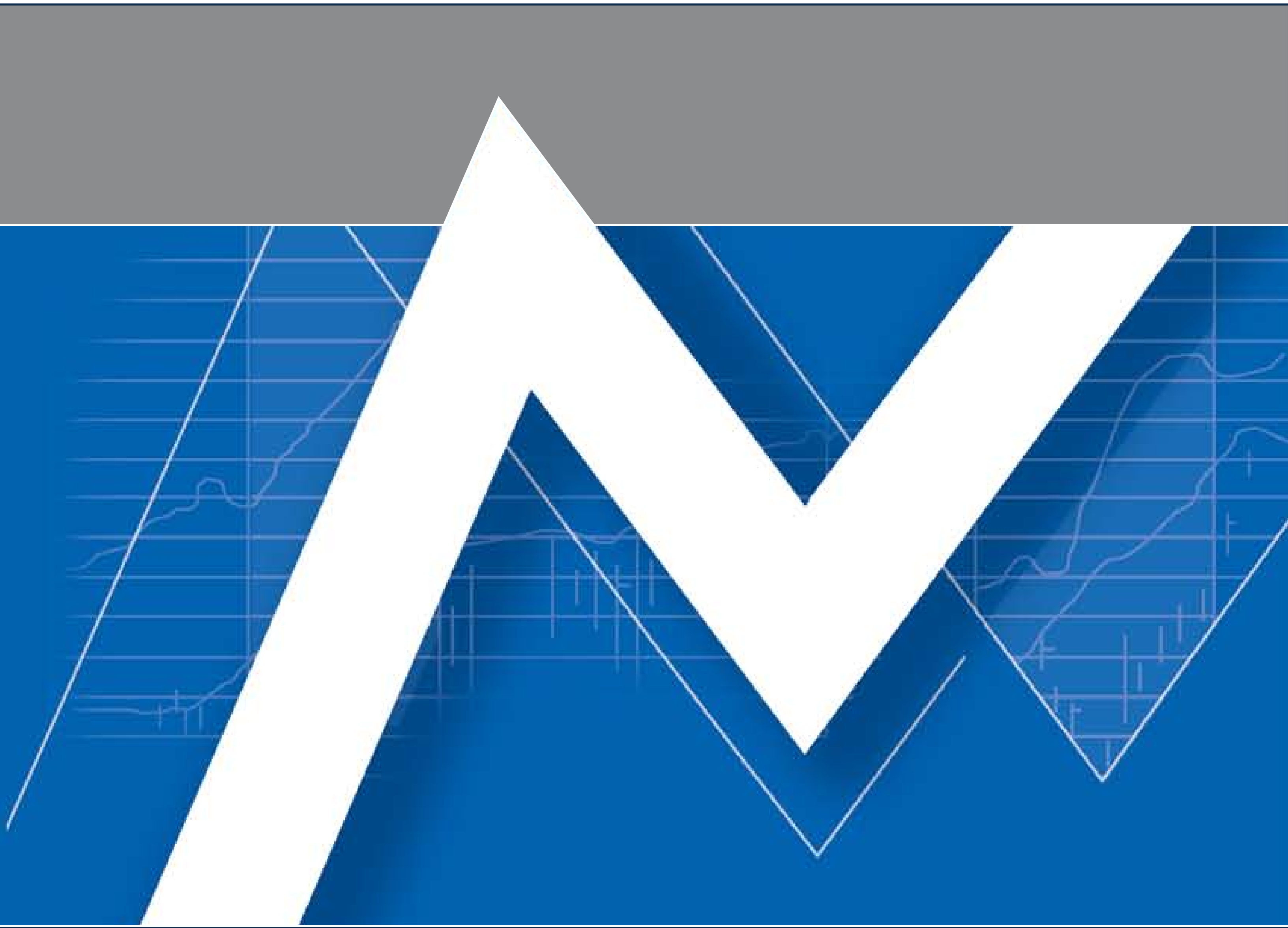

- **Municipal Bond Credit Report**
  By: Tiffany Coln
- **The Auction Rate Securities Market**
  By: Christine Munroe

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New York ▪ Washington ▪ London ▪ Hong Kong

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MUNICIPAL BOND CREDIT REPORT

Market Overview

The municipal bond environment has been beset by a number of challenges and pressures during the fourth quarter of 2007 and into 2008, including a significantly slower economy, housing sector deterioration, the effect of monoline insurer exposure and dislocation in the tax-exempt auction rate securities market. Nevertheless, municipal issuers' fiscal and credit quality conditions remained solid. The majority of 2007 issuance occurred in the first-half of the year during a period of a relatively flat yield curve and historically tight credit spreads and before the onset of the credit market turmoil.

The municipal market was relatively unaffected during the initial stages of the subsequent rise in credit market volatility and risk repricing. More recently, however, increased investor risk aversion, the monoline insurer situation and the short-term tax-exempt market dislocations depressed municipal bond pricing and slowed issuance volumes. As a result of diminished market liquidity, several late-year deals were delayed. During the latter part of the fourth quarter of 2007 and into 2008, municipal market participants have been focused on searching for solutions to the auction-rate securities (ARS) and bond insurer situations.

As we enter the second quarter of 2008, the market is expecting a surge in issuance as delayed issues are expected to come to market along with issuers looking for alternatives to the auction rate market. Higher supply has been a factor in more recent weaker pricing and higher yields in the longer-term end of the market. The higher yields, however, generated increased institutional and retail investor demand. A positive effect on the direction of municipal bond prices slowed the recent market unraveling in early March. According to Citigroup, institutional investor demand is expected to remain tepid following a period of bargain hunting.

Dislocations in the ARS market, which resulted in a number of failed auctions and higher reset rates, have had a profound effect on the overall tax-exempt market. The higher rates have generated demand for tax-exempt ARS by traditional institutional buyers and hedge funds, as well as retail buyers, which has slowed the pace of failed auctions. However, as a consequence of the dislocations, some issuers have restructured their debt away from ARS. A critical issue for the future of the market is removing obstacles and reducing the substantial cost of refinancing ARS. A recent J.P. Morgan report estimated close to a 50 percent tax-exempt ARS failure rate during the second half of February, which still was lower than that in student loan and preferred ARS.

ARS acted as an alternative to variable rate demand obligations (VRDO) with long maturities, short-term rate resets and lower borrowing costs. With the lack of liquidity and subsequent financial constraints faced by bond insurers, issuers have turned to the VRDO market, which has remained a functioning market, as they look to avoid the rising yields in the ARS marketplace. VRDO's differ from ARS with resets based on a benchmark index and a built-in 1-day or 7-day 'put' option, allowing the bondholder to receive par plus accrued interest. Issuers in the VRDO market are not exposed to the rate volatility and fail risk that occurs through the process of bids and orders in the ARS market. The credit crunch, however, has curbed investor appetite for tax-exempt VRDOs whose enhanced credit ratings have been affected by negative rating actions on monolines. SIFMA is actively involved in developing solutions to the ARS market dislocation.

In general, despite the more difficult economic and market conditions, state fiscal positions remained relatively strong and resilient, with revenue growing at a faster pace than expected in most states through the end of last year. Fiscal year 2007 tax collections were 5.6 percent higher than in FY 2006, with corporate income taxes increasing by 9.0 percent. These trends reflect well on the states' abilities to plan for and manage their finances in the current environment. However, weaker economic trends and deterioration in the housing sector will undoubtedly adversely affect fiscal and tax revenue trends during 2008. According to the National Association of State Budget Officers, Medicaid accounted for 21.5 percent of state expenditures, followed by elementary and secondary education with 21.4 percent. The general fund represented 44.7 percent of the approximately $1.46 trillion spent by state and local governments in FY 2007.

Long-term municipal bond issuance reached a record $428.8 billion in 2007, 10.9 percent higher than in 2006. Long-term issuance peaked in the second quarter at $123.8 billion, slowing in the second half amid the broader credit market turmoil, with issuance falling to $93.4 billion in the third quarter, but rebounding to $104.1 billion in the fourth quarter. Affected by the bond insurance situation and market conditions, volume slowed in early 2008.

Credit rating performance of new issuance in 2007 reflects solid state and local government fiscal management with the dollar volume of total Aaa-rated issuance increasing to $241.4 billion, compared to $227.4 billion in 2006. On a dollar volume basis, the percentage of Aaa-rated municipal issuance declined slightly to 56.3 percent in 2007, from 58.8 percent in the previous year, with both Aaa-rated general obligation (G.O.) and revenue bond issuance declining as a percentage of total issuance. For full-year 2007, 63.8 percent of G.O. bond issuance received a Aaa rating, with 83.8 percent rated Aa or above. Excluding unrated issues, 66.0 percent of the year's new G.O. issues were rated Aaa, with less than one percent rated Baa and no issues rated below Baa. Based on dollar volume, $157.5 billion, or 53.0 percent, of all revenue bond issuance was rated Aaa, with 70.6 percent rated Aa or better. In 2006, $150.2 billion, or 55.2 percent, of revenue bonds were rated Aaa, with 74.7 percent rated Aa or better. Within the revenue bond sector, 64.3 percent of rated issues carried the top investment-grade rating, and 21.4 percent were rated Aa in 2007. Less than one percent was rated below Baa.

Credit Enhancement

As has been widely reported, monoline bond insurer's credit ratings have come under scrutiny as their capital levels have fallen due to exposure to subprime mortgage-backed securities and structured credit transactions. The use of third-party enhancement by municipal issuers has gradually slowed in recent years as the underlying credit quality of state and local issuers has improved. The percentage of municipal bonds carrying credit enhancement edged up in the first half of 2007, but fell in the second half as a result of the bond insurer situation, a trend that is expected to continue in 2008. Higher-rated issuers have become less dependent on credit enhancement. Over the second half of 2007 and into 2008, in view of bond insurer rating downgrades and potential additional negative rating actions, municipal bond investors are paying greater attention to the underlying ratings of issuers.

For 2007 as a whole, 56.0 percent of all new issues carried some form of credit enhancement, slightly lower than the 57.1 percent recorded in 2006. Over 46 percent, or $198.3 billion, of total new issues carried bond insurance in 2007, with an additional 9.8 percent carrying another type of enhancement. According to Citigroup, 28 percent of new issues through the first two months of 2008 carried bond insurance. While bond insurance has been the most common form of enhancement, there has been a surge in recent months in the use of lines of credit as issuers look to protect VRDOs. Over $4.5 billion in new long-term issues were backed by domestic lines of credit in the first three months of this year, compared to $2.0 billion in the comparable period of

2007, with the number of issues remaining relatively flat. Unenhanced new issues totaled $188.7 billion in 2007, an increase from the $180.7 billion in 2006. About 20.3 percent of unenhanced new issues on a dollar volume basis were rated Aaa by Moody's and 21.0 percent were rated AAA by Standard & Poor's (S&P).

Regional Trends

Ratings on new state G.O. debt remained consistently strong across regions, despite the noted concerns relating to the credit worthiness of monoline insurers and the weaker economy. Seven states carry the highest investment-grade rating from all three rating agencies, with eleven states carrying the highest investment-grade rating from at least one of the three agencies.

The Northeast region accounted for $108.0 billion, or 25.2 percent, of total long-term new issues in 2007, with $57.5 billion, or 53.2 percent, rated Aaa by Moody's. Full-year issuance in the region increased 14.7 percent over 2006, with 74.2 percent of all issues rated Aa or better. In the G.O. sector, 62.5 percent of issues were rated Aaa, with 29.1 percent rated Aa. Similarly, 49.6 percent and 17.7 percent of revenue bonds were rated Aaa and Aa, respectively. In late 2007, Fitch placed Rhode Island's AA-rated G.O. debt on negative credit watch as a result of an expected weakening in tax revenue flow.

The Far West region was second in overall issuance in 2007, with $90.8 billion, or 21.2 percent, of that total, driven by several large deals in California. Issuance in the region increased 23.2 percent over the previous year. Nearly 60 percent of G.O. issues were rated Aaa, with another 11.0 percent rated Aa and no G.O issues rated below A. Revenue bond credit quality was also strong, with 58.7 percent rated Aaa and 15.5 percent rated Aa. S&P recently revised its rating outlook based on expected lower tax revenues for California to stable from positive, on an affirmed A+ rating. In early 2008, Fitch put the state's A+ rating on negative watch, reflecting a widening structural budget deficit and the effects of the state's housing downturn.

With $88.2 billion in total issuance, the Southeast region ranked third in overall issuance in 2007, accounting for 20.5 percent of the total volume, and up 8.4 percent compared to last year. Nearly 94 percent of total G.O. debt was rated Aa or better, a sign of the continuing strong credit quality of issuers in the region. Revenue bonds rated Aaa accounted for 55.1 percent and those rated Aa, 20.3 percent. S&P recently affirmed Florida's AAA G.O. rating, citing favorable underlying growth fundamentals despite economic and budget challenges. With population and income growth trending upward and relatively low unemployment, the rating agency expects the state to weather potential revenue shortfalls resulting from a slowing economy and the state's vulnerability to weaker housing prices and subprime mortgages.

Issuance in the Midwest was up slightly, reaching $74.1 billion in 2007, a less than two percent increase from $73.1 billion in 2006. Over 70 percent of the region's G.O. debt was rated Aaa, the highest of the five regions, with another 15.9 percent rated Aa. The proportion of high investment-grade new issues belies concerns in the region over a slowing economy due to the regional manufacturing sector, trends in the municipal market already cited and bond insurer rating concerns. In contrast, 46.8 percent of revenue bond issues were Aaa rated, with 60.6 percent rated Aa or better.

The Southwest's issuance increased 5.7 percent to $68.1 billion in 2007, accounting for 15.9 percent of overall municipal bond issuance. The G.O. and revenue bond sectors had 65.7 percent and 55.1 percent of their debt rated Aaa, respectively. In November 2007, S&P affirmed the AA rating on the G.O. debt of the region's largest issuing state, Texas, citing its ability to withstand a weakened economy and the worsening housing crisis due to improved revenues from a diversifying economy and stable financial position.

Yields

The ratio of the AAA-rated G.O 10-year municipal yield to that of comparable maturity Treasury securities exceeded 100 percent at times during the fourth quarter of 2007 and reached 93.0 percent at the end of the year, compared to 82.5 percent at midyear and 80.6 percent at the end of 2006. These trends are indicative of stronger price appreciation in the Treasury market and investor concerns about the effect of the bond insurer concern. The ratio has since climbed to 112 percent as of March 20. Yields ended 2007 at 3.74 percent, lower than the 3.85 percent at the end of September and 3.77 percent at month-end March. The Federal Open Market Committee's aggregate 200 basis point reduction in the target Fed funds rate in early 2008 to 2.25 percent and investor risk sensitivity has led to municipal curve steepening.

As suggested in the previous paragraph, Treasury yields have declined relative to municipal yields, especially during February of 2008. According to the Municipal Market Advisors' (MMA) Consensus scale, over the three month period ending February 29, 2008, yields on securities with a maturity of seven years or more fell as prices rose on an absolute basis, reflecting the general direction of interest rates. The same trend can be seen when compared to yield levels one year ago. 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.

Outlook

Municipal bond issuance is expected to pick up over the short-term as issuers adjust to changes in the market environment and look for substitute funding as a result of ARS and short-term funding market dislocations. Consistent with SIFMA Credit Market Outlook forecast released at the beginning of the year, issuance should be somewhat lower for full-year 2008 as the credit market turmoil and the bond insurer situation work its way through the system[1]. Issuance in January and February 2008 was below the pace of the same year-earlier period. Although rating levels should remain relatively elevated compared to those in the taxable credit market sectors, 2008 should prove to be fiscally challenging as states face the prospect of reduced tax collections and the continuation of a weak housing market through much of the year. It should be kept in mind that municipal bond defaults are rare and the municipal default rate is a fraction of the corporate bond default rate. Moody's has estimated the long-term municipal bond default rate to be 0.10 percent.

The Fiscal Survey of the States, released jointly by the National Governors Association and the National Association for State Budget Officers, reports that states will see their aggregate balance decline to $47.0 billion at year-end 2008, compared to $62.7 billion in 2007. Declining home prices undoubtedly will have an adverse effect on tax collections, including property taxes, as assessments are adjusted downwards, and on sales taxes as a slowdown in housing starts to curb spending on construction and related materials. Nevertheless, the protracted revenue growth over the last several years and state and local government budgetary controls should enable the municipalities to manage a leaner 2008 until a recovery in economic activity takes shape.

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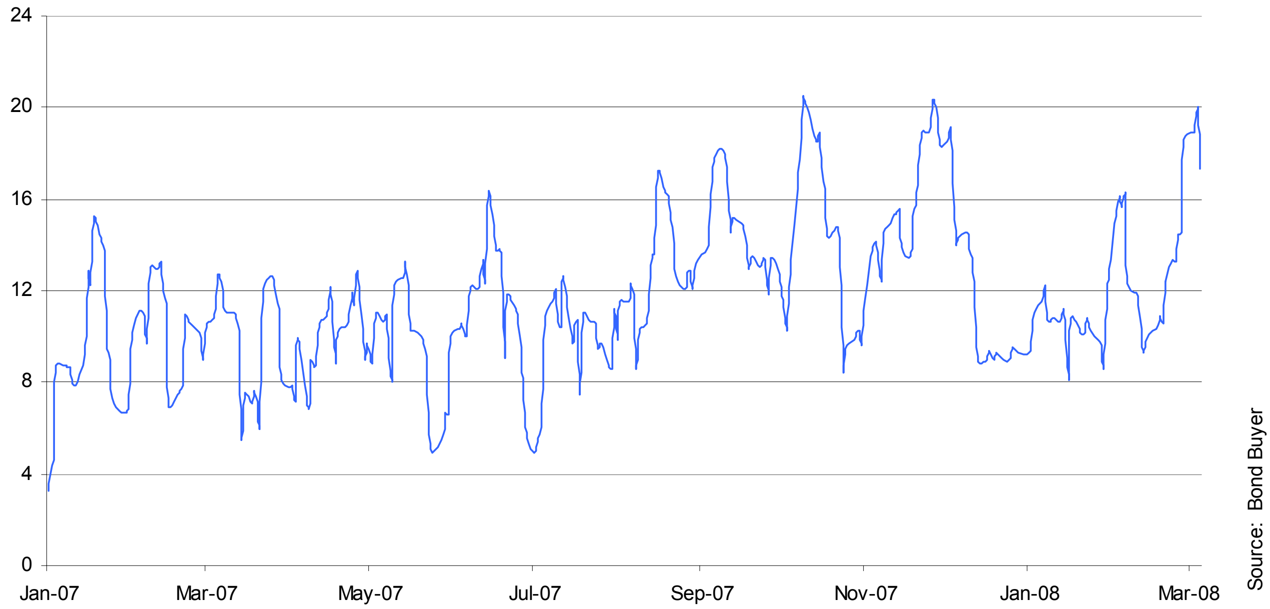
[1] SIFMA Credit Market Outlook can be found at: (http://www.sifma.org/research/pdf/usMktOutlook0108.pdf).

Bond Buyer 30-day Visible Supply*

Amounts in $ Billions



*As of March 18, 2008

Long-Term Municipal State Issuance by Type

As of December 31, 2007

Amounts in $ Millions

State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue
Alabama	6,802.1	2,241.8	4,560.3	**Kentucky**	5,001.7	175.3	4,826.4	**Ohio**	15,675.6	3,363.5	12,312.1
Alaska	1,564.5	632.4	932.1	**Lousiana**	6,129.0	384.9	5,744.1	**Oklahoma**	2,542.6	649.4	1,893.2
Arizona	8,966.7	2,493.3	6,473.4	**Maine**	1,105.3	222.8	882.5	**Oregon**	4,347.3	2,194.5	2,152.8
Arkansas	1,673.4	671.9	1,001.5	**Maryland**	6,367.5	2,518.8	3,848.7	**Pennsylvania**	17,911.5	5,982.8	11,928.7
California	66,627.2	23,266.0	43,361.2	**Massachusetts**	12,073.8	3,931.4	8,142.4	**Puerto Rico**	12,268.9	2,387.1	9,881.8
Colorado	8,254.2	1,564.6	6,689.6	**Michigan**	9,418.9	2,939.8	6,479.1	**Rhode Island**	1,366.4	202.7	1,163.7
Connecticut	4,778.1	2,112.5	2,665.6	**Minnesota**	6,669.0	3,375.6	3,293.4	**South Carolina**	3,842.6	1,035.9	2,806.7
Delaware	2,409.8	332.6	2,077.2	**Mississippi**	3,714.0	833.7	2,880.3	**South Dakota**	828.9	94.1	734.8
D. of Columbia	2,182.9	1,385.6	797.3	**Missouri**	6,336.2	1,105.2	5,231.0	**Tennessee**	6,374.4	1,619.1	4,755.3
Florida	28,103.9	1,802.9	26,301.0	**Montana**	838.9	159.5	679.4	**Texas**	39,047.2	18,961.6	20,085.6
Georgia	9,986.9	4,220.2	5,766.7	**Nebraska**	3,857.6	555.8	3,301.8	**Utah**	2,508.1	835.4	1,672.7
Guam	188.9	151.9	37.0	**Nevada**	4,220.1	1,825.9	2,394.2	**Vermont**	863.7	285.5	578.2
Hawaii	1,382.3	893.8	488.5	**New Hampshire**	1,239.4	149.3	1,090.1	**Virginia**	8,206.2	1,799.5	6,406.7
Idaho	1,268.9	314.3	954.6	**New Jersey**	13,304.9	2,328.4	10,976.5	**Virgin Islands**	161.7	-	161.7
Illinois	15,931.1	7,651.4	8,279.7	**New Mexico**	2,219.9	512.8	1,707.1	**Washington**	9,573.3	4,681.3	4,892.0
Indiana	7,036.4	890.2	6,146.2	**New York**	31,999.9	8,703.9	23,296.0	**West Virginia**	1,962.4	80.6	1,881.8
Iowa	2,658.7	775.6	1,883.1	**North Carolina**	7,947.6	2,217.1	5,730.5	**Wisconsin**	4,913.2	2,623.3	2,289.9
Kansas	2,762.6	1,297.1	1,465.5	**North Dakota**	704.1	143.1	561.0	**Wyoming**	854.7	8.2	846.5

G.O. Issuance 131,686.4
Revenue Issuance 297,389.2
Total LT Issuance 429,075.6

Source: Thomson Financial

Outstanding, Ratings and Insured Volume by State
As of February 27, 2008

$ millions	Outstanding[1]	Moody's	S&P	Fitch	$ Insured[2]	% Insured	AMBAC	MBIA	FGIC	FSA	Radian	Other
Alabama	33.7	Aa2	AA	AA	18.7	55.6%	5.8	4.3	2.6	3.3	0.1	2.7
Alaska	13.0	Aa2	NR	AA	7.6	58.5%	1.0	4.1	1.3	1.2	0.0	0.1
Arizona	51.0	NR	NR	NR	23.8	46.7%	5.9	5.9	7.1	4.2	0.1	0.6
Arkansas	13.8	Aa2	AA	NR	5.1	36.8%	1.8	0.7	0.6	1.3	0.0	0.7
California	450.8	A1	A+	A+	250.0	55.5%	61.3	78.3	46.1	49.9	1.5	12.9
Colorado	55.9	NR	NR	NR	31.3	56.0%	5.8	10.9	4.5	6.9	1.0	2.2
Connecticut	38.0	Aa3	AA	AA	17.6	46.3%	4.7	5.9	2.7	3.2	0.6	0.5
Delaware	9.1	Aaa	A+	AAA	2.5	27.3%	0.8	0.9	0.4	0.2	0.0	0.1
D. of Columbia	22.9	NR	AAA	A+	14.1	61.7%	3.0	3.7	3.2	3.5	0.0	0.8
Florida	165.3	Aa1	AAA	AA+	99.7	60.3%	25.8	29.7	19.3	18.8	0.9	5.2
Georgia	65.9	Aaa	AAA	AAA	26.0	39.5%	4.6	7.4	4.9	7.1	0.2	1.8
Guam	1.2	NR	B	NR	0.4	34.2%	0.2	0.2	0.0	0.1	0.0	0.0
Hawaii	13.0	Aa2	AA	AA	10.9	83.8%	2.0	3.6	3.0	2.1	0.1	0.1
Idaho	6.5	Aa2	NR	MR	2.5	38.4%	0.4	0.8	0.4	0.7	0.1	0.1
Illinois	135.7	Aa3	AA	AA	86.7	63.9%	18.3	23.9	18.1	20.2	0.5	5.7
Indiana	51.1	NR	AA+	NR	28.5	55.7%	6.2	8.5	5.2	7.2	0.1	1.3
Iowa	18.9	NR	AA+	AA	7.9	41.9%	3.5	1.4	0.6	1.4	0.2	0.8
Kansas	20.5	NR	NR	NR	9.8	47.8%	1.8	3.2	1.4	2.8	0.1	0.5
Kentucky	32.9	NR	NR	NR	14.9	45.3%	3.7	4.9	2.0	3.2	0.0	1.0
Lousiana	32.4	A2	A	A	19.6	60.6%	5.8	5.1	3.5	3.2	0.2	1.8
Maine	9.3	Aa3	AA	AA	3.7	40.2%	1.3	0.9	0.4	1.1	0.0	0.1
Maryland	41.5	Aaa	AAA	AAA	8.5	20.6%	2.2	1.7	1.8	2.0	0.2	0.6
Massachusetts	88.2	Aa2	AA	AA	44.0	49.9%	11.8	12.4	6.0	11.1	0.4	2.3
Michigan	82.7	Aa3	AA-	AA-	48.8	59.0%	8.4	13.3	10.6	14.2	0.1	2.3
Minnesota	48.8	Aa1	AAA	AAA	15.5	31.8%	3.0	5.0	1.1	5.0	0.1	1.2
Mississippi	18.8	Aa3	AA	AA	5.8	31.1%	1.9	0.9	1.1	1.3	0.1	0.5
Missouri	43.7	Aaa	AAA	AAA	18.7	42.9%	5.5	5.0	2.5	4.1	0.3	1.3
Montana	6.8	Aa2	AA-	NR	1.7	24.3%	0.9	0.5	0.0	0.1	0.0	0.1
Nebraska	16.4	NR	NR	NR	6.6	40.2%	2.0	1.7	1.3	1.3	0.1	0.2
Nevada	27.9	Aa1	AA+	AA+	19.4	69.4%	4.6	4.4	4.9	4.7	0.1	0.7
New Hampshire	14.3	Aa2	AA	AA	4.4	30.6%	0.9	1.3	0.7	1.0	0.0	0.4
New Jersey	108.3	Aa3	AA	AA-	70.6	65.1%	15.8	21.0	10.4	19.4	0.4	3.5
New Mexico	15.9	Aa1	AA+	NR	6.7	42.2%	2.1	2.3	0.5	1.2	0.1	0.5
New York	301.3	Aa3	AA	AA-	126.9	42.1%	28.1	36.3	22.4	30.0	1.0	9.1
North Carolina	55.1	Aaa	AAA	AAA	16.8	30.6%	6.1	5.3	1.3	3.2	0.2	0.7
North Dakota	4.2	Aa3	AA	NR	2.0	47.8%	0.8	0.7	0.1	0.2	0.0	0.1
Ohio	87.8	Aa1	AA+	AA	35.7	40.7%	9.4	8.4	7.1	9.2	0.4	1.3
Oklahoma	18.8	Aa3	AA	AA	8.7	46.5%	2.4	2.5	1.3	1.0	0.2	1.4
Oregon	32.3	Aa2	AA	AA-	19.0	58.8%	2.9	5.1	4.6	5.7	0.2	0.6
Other Territories	4.9	NR	NR	NR	0.4	8.6%	0.2	0.2	0.0	0.0	0.0	0.0
Pennsylvania	131.7	Aa2	AA	AA	74.5	56.6%	18.0	12.1	15.1	23.3	1.5	4.6
Puerto Rico	64.1	Baa3	BBB-	NR	25.5	39.8%	6.2	8.1	4.8	4.9	0.0	1.4
Rhode Island	14.0	Aa3	AA	AA	6.6	47.0%	1.9	1.7	0.6	1.7	0.3	0.4
South Carolina	38.0	Aaa	AA+	AAA	18.3	48.2%	5.1	4.4	1.3	5.5	0.5	1.6
South Dakota	4.9	NR	NR	NR	1.6	31.7%	0.4	0.4	0.1	0.6	0.0	0.1
Tennessee	45.0	Aa1	AA+	AA+	15.4	34.3%	4.2	4.9	1.7	3.5	0.1	1.1
Texas	250.5	Aa1	AA	AA+	92.4	36.9%	24.1	24.4	14.5	22.2	2.5	4.7
Trust Territories	0.3	NR	NR	NR	0.0	0.0%	0.0	0.0	0.0	0.0	0.0	0.0
Utah	19.8	Aaa	AAA	AAA	7.7	39.0%	3.7	1.8	1.0	1.0	0.0	0.2
Vermont	5.9	Aaa	AA+	AA+	4.5	75.3%	2.7	0.5	0.1	1.1	0.1	0.0
Virginia	58.3	Aaa	AAA	AAA	11.7	20.1%	2.2	4.7	1.0	3.4	0.1	0.3
Virgin Islands	1.8	NR	NR	NR	0.6	33.3%	0.1	0.0	0.2	0.1	0.1	0.1
Washington	70.3	Aa1	AA+	AA	45.0	64.0%	7.7	13.5	7.5	14.1	0.6	1.5
West Virginia	11.1	Aa3	AA-	AA-	5.0	45.1%	1.6	0.9	1.7	0.6	0.0	0.1
Wisconsin	41.8	Aa3	AA-	AA-	21.4	51.2%	3.3	6.2	2.9	6.7	0.2	2.2
Wyoming	4.3	NR	AA	NR	0.5	11.7%	0.3	0.1	0.0	0.1	0.0	0.0

Source: Bloomberg

[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 insured and not advanced refunded.

Long-Term Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of December 31, 2007

Amounts in $ Millions

General Obligation

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	20,292.9	16,577.4	19,134.0	10,182.3	17,770.6
Aa	3,732.8	3,758.4	8,912.9	5,259.1	4,638.1
A	9,114.6	472.1	62.5	85.3	242.9
Baa		52.1	707.3	19.9	26.2
Below Baa					
Total Rated	33,140.3	20,860.0	28,816.7	15,546.6	22,677.8
Not Rated	835.6	2,657.5	1,726.7	864.4	4,308.4
Totals	**34,026.4**	**23,568.0**	**30,593.8**	**16,461.6**	**27,036.7**
% of Total LT Volume	**25.8%**	**17.9%**	**23.2%**	**12.5%**	**20.5%**

Revenue

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	33,300.1	23,679.8	38,340.2	39,540.0	22,615.7
Aa	8,790.6	6,957.5	13,682.9	14,576.3	8,411.0
A	1,351.1	1,797.9	5,625.5	2,846.6	569.3
Baa	4,816.4	5,574.3	5,953.6	3,996.9	625.0
Below Baa	182.5	108.7	1,011.8	250.0	326.8
Total Rated	48,440.7	38,118.2	64,614.0	61,209.8	32,547.8
Not Rated	8,260.6	12,393.8	12,714.7	10,450.1	8,440.7
Totals	**56,741.1**	**50,551.8**	**77,368.5**	**71,699.7**	**41,028.3**
% of Total LT Volume	**19.1%**	**17.0%**	**26.0%**	**24.1%**	**13.8%**

Source: Thomson Financial

Long-Term Unenhanced Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of December 31, 2007

Amounts in $ Millions

General Obligation - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	622.7	2,012.4	2,810.8	4,419.2	8,919.4
Aa	2,854.6	3,257.1	6,398.7	4,160.2	4,045.6
A	1,735.7	456.3	50.9	52.9	240.8
Baa	-	47.4	567.0	19.9	26.2
Below Baa	-	-	-	-	-
Total Rated	5,213.0	5,773.2	9,827.4	8,652.2	13,232.0
Not Rated	629.2	2,402.1	1,463.5	718.1	3,361.9
Totals	**5,842.2**	**8,175.3**	**11,290.9**	**9,370.3**	**16,593.9**
% of Total LT Volume	**11.4%**	**15.9%**	**22.0%**	**18.3%**	**32.4%**

Revenue - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	1,933.8	2,333.2	3,807.9	4,765.9	3,419.9
Aa	6,302.2	5,313.0	9,406.6	8,880.5	7,389.9
A	1,101.0	1,454.9	3,755.1	2,544.4	518.5
Baa	4,724.6	5,574.3	4,675.3	3,983.4	625.0
Below Baa	182.5	108.7	1,011.8	250.0	326.8
Total Rated	14,244.1	14,784.1	22,656.7	20,424.2	12,280.1
Not Rated	5,476.2	8,095.6	8,754.9	7,589.4	6,182.0
Totals	**19,720.3**	**22,879.7**	**31,411.6**	**28,013.6**	**18,462.1**
% of Total LT Volume	**16.4%**	**19.0%**	**26.1%**	**23.3%**	**15.3%**

Source: Thomson Financial

Long-Term Municipal Issuance - General Obligation
General Use of Proceeds
By Moody's Rating Category
As of December 31, 2007
Amounts in $ Millions

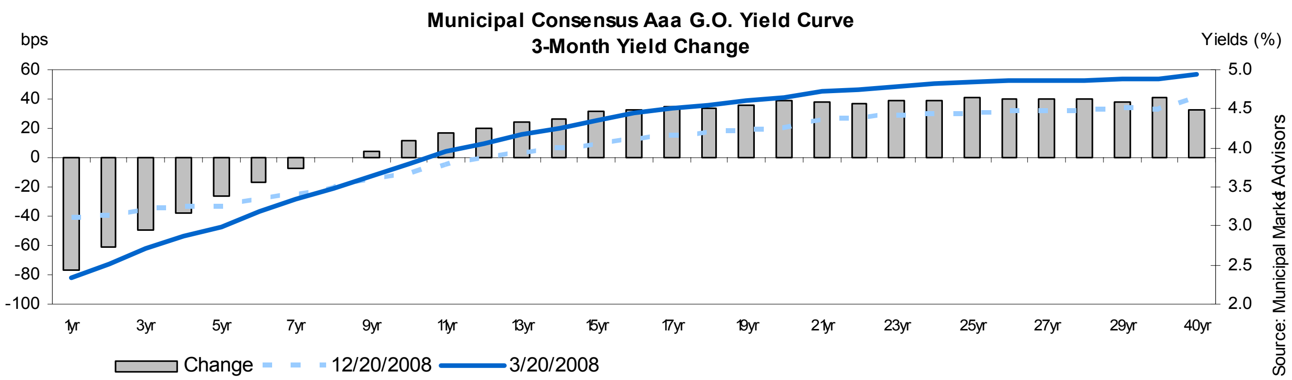
Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	41,948.9	1,645	6,653.8	186	375.3	99	12.4	3	-	-	4,673.4	807	53,663.8	2,740
General Purpose	32,272.1	1,248	15,171.1	315	9,447.3	149	752.8	19	-	-	3,128.9	690	60,772.2	2,421
Utilities	3,259.3	244	724.1	41	20.8	12	5.1	3	-	-	2,078.5	255	6,087.8	555
Public Facilities	2,158.0	162	298.8	25	98.3	22	21.4	2	-	-	376.5	194	2,953.0	405
Transportation	2,995.4	70	2,910.6	37	20.0	10	1.8	2	-	-	157.6	89	6,085.4	208
Housing	89.5	7	416.6	11	-	-	-	-	-	-	4.9	1	511.0	19
Other	1,234.0	37	126.3	14	15.7	6	12.0	1	-	-	225.3	43	1,613.3	101
Totals	**83,957.2**	**3,413**	**26,301.3**	**629**	**9,977.4**	**298**	**805.5**	**30**	**-**	**-**	**10,645.1**	**2,079**	**131,686.5**	**6,449**
% of Total LT G.O.	**63.8%**	**52.9%**	**20.0%**	**9.8%**	**7.6%**	**4.6%**	**0.6%**	**0.5%**	**-**	**-**	**8.1%**	**32.2%**	**100.0%**	**100.0%**

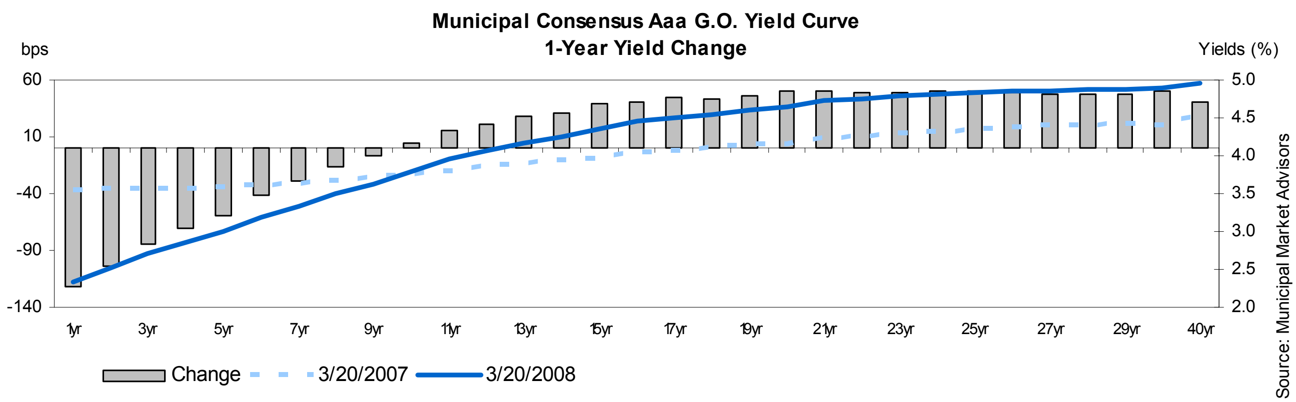
Source: Thomson Financial

Long-Term Municipal Issuance - Revenue
General Use of Proceeds
By Moody's Rating Category
As of December 31, 2007
Amounts in $ Millions

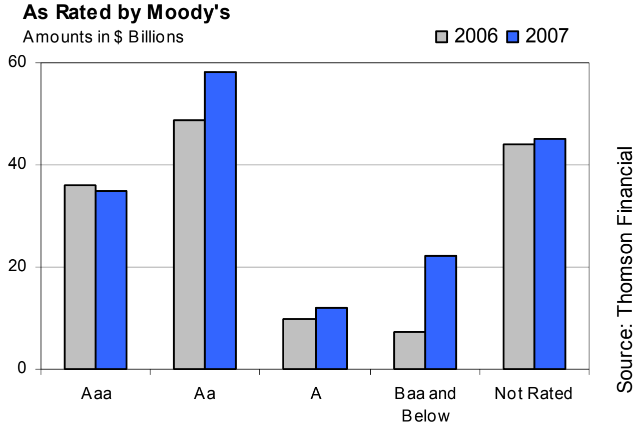
Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	37,922.7	618	6,084.7	210	1,590.7	52	443.1	15	-	-	8,265.3	445	54,306.5	1,340
General Purpose	19,052.5	390	3,254.8	70	2,086.7	24	15,350.2	15	-	-	8,270.4	499	48,014.6	998
Utilities	23,430.3	475	12,864.9	58	53.4	14	7.3	2	-	-	1,475.6	196	37,831.5	745
Public Facilities	7,429.8	160	668.5	33	427.4	12	688.9	3	-	-	1,596.3	89	10,810.9	297
Transportation	24,459.8	192	5,490.2	41	966.9	12	657.7	3	378.7	2	4,861.8	77	36,815.1	327
Housing	10,552.4	353	10,408.8	242	108.9	6	13.5	2	12.5	1	9,019.2	361	30,115.3	965
Other	34,628.3	385	13,646.4	183	6,956.4	92	3,805.5	46	1488.6	7	18,970.1	865	79,495.3	1,578
Totals	**157,475.8**	**2,573**	**52,418.3**	**837**	**12,190.4**	**212**	**20,966.2**	**86**	**1,879.8**	**10**	**52,458.7**	**2,532**	**297,389.2**	**6,250**
% of Total LT Rev.	**53.0%**	**41.2%**	**17.6%**	**13.4%**	**4.1%**	**3.4%**	**7.1%**	**1.4%**	**-**	**-**	**17.6%**	**40.5%**	**100.0%**	**100.0%**

Source: Thomson Financial

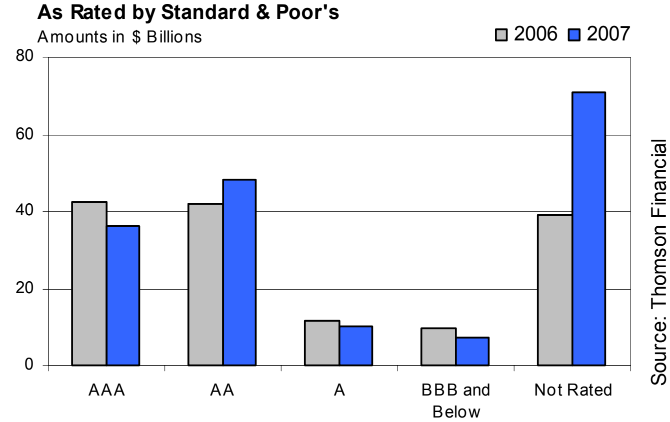




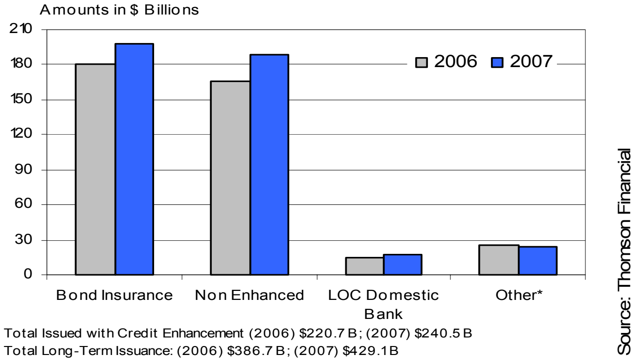
Long-Term Unenhanced Issuance
As Rated by Moody's
Amounts in $ Billions



Long-Term Unenhanced Issuance
As Rated by Standard & Poor's
Amounts in $ Billions

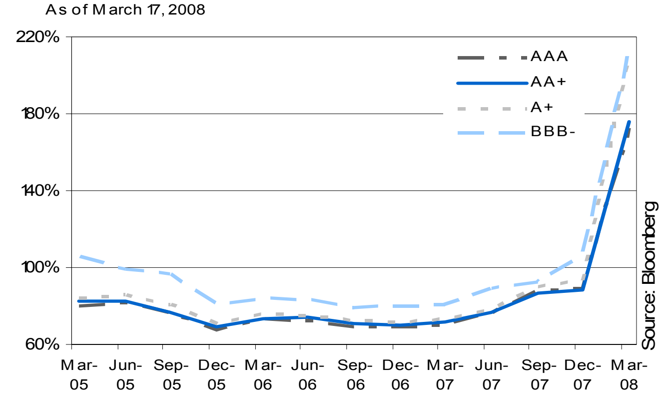


Long-Term Municipal Issuance by Enhancement Type
Amounts in $ Billions

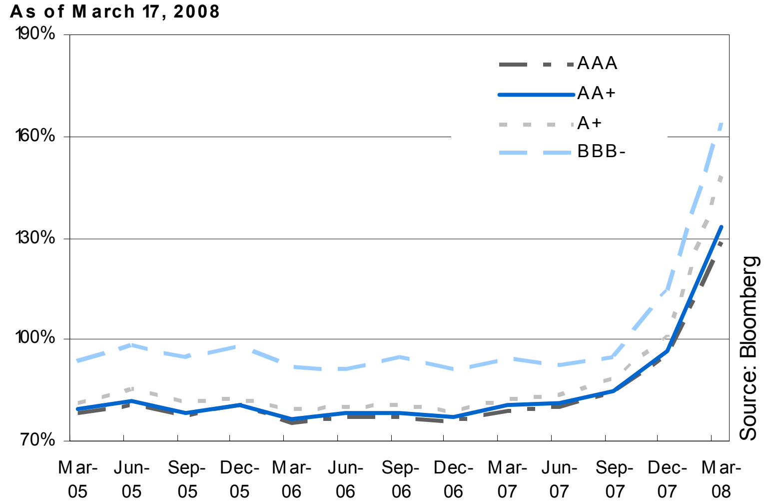


Total Issued with Credit Enhancement (2006) $220.7 B; (2007) $240.5 B
Total Long-Term Issuance: (2006) $386.7 B; (2007) $429.1 B
*Includes Standby Purchase Agreement, Mortgage-backed, LOC Foreign Bank, Investment Agreement and Guaranteed

Municipal G.O. to Treasury Ratio - 3-Month
As of March 17, 2008



Municipal G.O. to Treasury Ratio - 5 Year
As of March 17, 2008



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, 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 ffith 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 Ratings[5]
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]

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[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 Ratings[7]

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.

[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 Regions[9]

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.

[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.

The Auction Rate Securities Market

What is an Auction Rate Security (ARS)?

Auction Rate Securities (ARS) are long-term bonds with interest rates that are reset through bidding (known as the "Dutch auction" process explained below) at predetermined intervals (usually 7, 28 or 35 days). The $330 billion ARS market matches those with long-term funding needs – state and local governments, non-profit hospitals, utilities, housing finance agencies and student loan finance authorities and universities – with investors seeking short-term investments – high net worth individuals or corporations. Importantly, although ARS are issued and rated as long-term bonds (typically 20-30 years), the auction process is designed to offer investors the opportunity to sell the debt every week or month when the interest rates are reset. In addition, ARS are typically insured by bond insurance companies.

How Does the ARS Market Work?

A Dutch auction is a competitive bidding process designed to determine a rate for the next term such that supply equals demand. The total number of shares available to auction at any given period is determined by the number of existing bond holders who wish to sell or hold bonds only at a minimum yield. Buyers specify the number of shares, typically in denominations of $25,000, they wish to purchase with the lowest interest rate they are willing to accept. Each bid and order size is ranked from lowest to highest minimum bid rate. The lowest bid rate at which all the shares can be sold at par establishes the interest rate otherwise known as the clearing rate. This rate is paid on the entire issue for the upcoming period. Investors who bid a minimum rate above the clearing rate receive no bonds while those whose minimum bid rates were at or below the clearing rate receive the clearing rate for the next period.

Size of the ARS Market

Auction Rate Market	$ billions
Tax-Exempt Municipal Bonds	$146
Taxable Student Loan Bonds	56
Taxable Preferred (closed end)	33
Tax-Exempt Preferred Bonds (closed end)	30
Tax-Exempt Student Loan Bonds	29
Taxable Municipal Bonds	19
Corporate Preferred (DRD)	9
Other (Including ABS)	8
Total	$330
* As of December 31, 2007	
Source: Banc of America Securities LLC.	

What Happens When an Auction Fails?

An auction fails if there are not enough buyers to purchase all the shares put out for sale. In that event, existing holders must hold their positions until the next auction date. The holders will receive the maximum interest rate specified in the issuer's official statement to compensate them for not being able to sell their positions. This results in higher financing costs for the bond issuer.

ARS Toolbox

Best Practices: In 2006, SIFMA developed Best Practices for Auction Rate Securities, as well as model auction agency and broker-dealer agreements and standard disclosure language.[1]

SIFMA Auction Rate Securities Indices: SIFMA also created the SIFMA Auction Rate Securities Indices to serve as a benchmark for issuers and investors. The Indices are compiled weekly and published on SIFMA's website (www.sifma.org).

Why Have Failures Increased?

ARS are generally sensitive to credit downturns. As the credit standing of the bond insurance companies deteriorated many municipal ARS auctions have failed. According to JP Morgan Securities, auctions were recently failing at the rate of $15 billion to $25 billion per day.[1] Issuers of failed auction rate securities may face steep increases in the interest rates on their outstanding debt, sometimes as high as 20 percent.[2] Similarly, the failures have left investors holding securities intended to be short-term investments.

In spite of the decline in the credit ratings of the bond insurers, the credit ratings of the ARS issuers have remained high. Indeed, the actual risk of default and loss of most municipal issuers is nearly zero. Federal Reserve Chairman Ben Bernanke told lawmakers February 27 that he expects the auction rate securities market will make necessary adjustments within a relatively short period of time. He predicted that liquidity will return to the market because most municipalities have a good credit rating.

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1 Berkrot, Bill, "Debt Issuers Seek Approval to Buy Own Debt," *Reuters*, February 26, 2008.

2 For instance, on February 25, $27.5 million of federally taxable student loan debt issued by the Vermont Student Assistance Corporation and insured by Ambac Financial Group, reset at 18 percent, up from the previous clearing rate of 5 percent on January 15.

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