Research

Municipal Bond Credit Report

The *Municipal Bond Credit Report* 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

The U.S. financial markets improved in the second quarter with many market observers anticipating an economic recovery later this year. Treasuries yields rose throughout the quarter as the government issued substantial amounts of new debt and investors continued to reverse the extreme flight to quality. The yield ratio of AAA-rated 10-year municipals to that of comparable 10-year Treasury securities ended the second quarter of 2009 at 95 percent, still above the pre-crisis average of 85 percent in 2007, but well below the level of 174 percent recorded at the end of 2008. AAA-rated municipal bond yields ended 2Q'09 at 3.37 percent, down from 3.45 percent at the end of the first quarter and 4.00 percent at the end of the same year-earlier period. The SIFMA Municipal Swap Index yield declined to 0.30 percent at end-June compared to 0.54 percent on March 25. As of the end of the second quarter, the 52-week average was 1.40 percent.

Municipal bond issuance increased in 2Q'09 from the previous quarter due in part to Build America Bonds (BABs), which were introduced to the market in April as part of President Obama's stimulus package. BABs are taxable municipal bonds, which provide a 35 percent rebate on interest costs to issuers or a tax credit to investors. Long-term municipal bond issuance, including BABs, was $111.2 billion in the second quarter of 2009, a 30.2 percent increase from the previous quarter's level of $85.4 billion, but less than the $146.1 billion issued in the same year-earlier period.[1] BAB issuance in the second quarter was $15.4 billion. California was the largest issuer of BABs with issuance of $6.0 billion.

Issuers' use of bond insurance, which has been declining over the past couple of years, continued to drop in the first half of 2009. Only 11.0 percent of all new issues carried bond insurance in the first six months compared to 24.0 percent in the first half of 2008. Letters of credit from domestic banks also decreased over the same time period, to 5.1 percent of issuance from 12.6 percent.

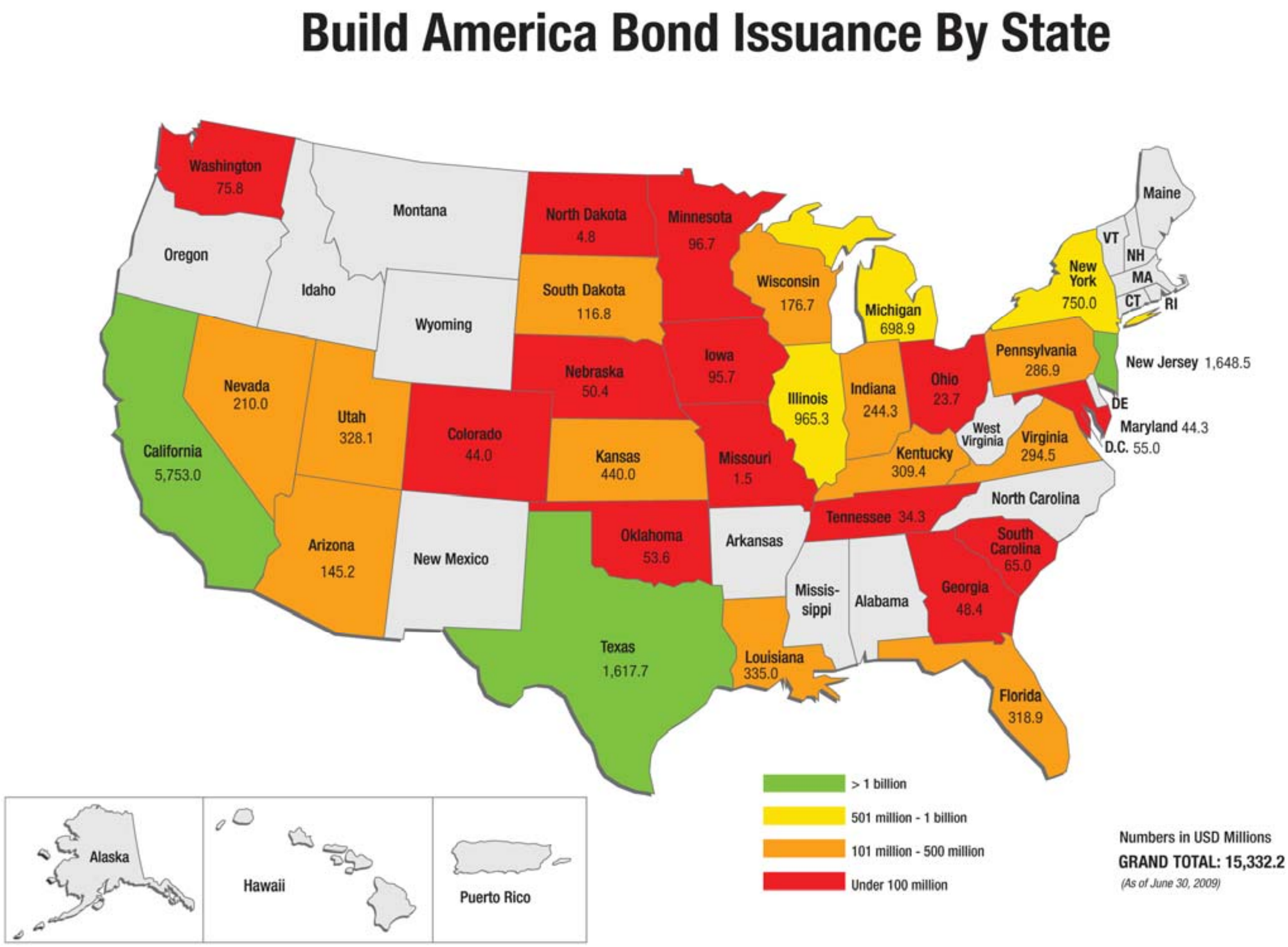
Issuance of variable rate demand obligations (VRDOs) accounted for 8.7 percent of total municipal issuance in the second quarter of 2009, down from 8.8 percent in the previous quarter, while fixed-rate issuance decreased to 86.7 percent from 89.2 percent. Unenhanced new issues on a dollar volume basis rated AAA by Moody's Investors Services declined to 7.6 percent in the first half of 2009 from 14.9 percent in the same year-earlier period, and those rated AAA by Standard & Poor's rose to 22.8 percent from 16.3 percent.

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

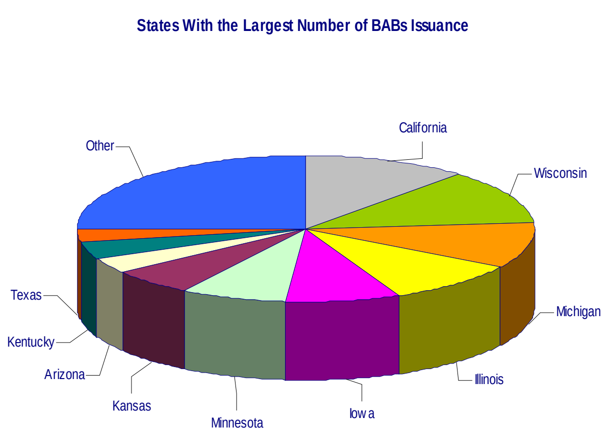
Credit Quality Trends

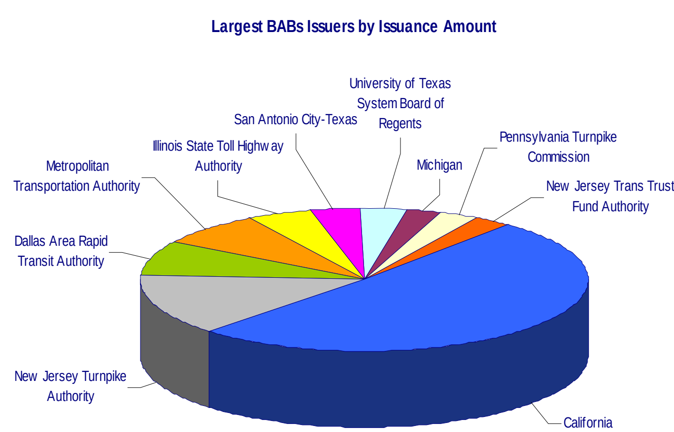
The lengthy recession and declining home prices have caused tax collections to decline in virtually every state. Personal income tax (PIT) revenues, which on average account for 36 percent of a state's revenue, have declined so significantly that many states are facing their worst financial crisis in many years. A report released by the Nelson A. Rockefeller Institute of Government on June 18, 2009 showed PIT revenues declined by 26 percent, or $28.8 billion, in the first four months of 2009, compared to levels in the same year-earlier period. Of the 41 states that reported personal income tax collections, only three states experienced an increase. Some of the states that had the weakest personal income tax collections in the period from January through April 2009 are also those who rely most heavily on PIT as a source of tax revenue. To close budget shortfalls several states are planning to increase personal income tax rates.

In July 2009, the National Conference of State Legislatures released a report on the dire situation of states' budgets. Although many states managed to close budget deficits of $113.2 billion in FY 2009, the current FY, which began on July 1 for most states, has gotten off to a shaky start. In many states lawmakers had to call special sessions to close gaps in their states' budgets and eight states failed to meet their FY deadline. The financial crisis would have been worse if the Federal government had not set up the America Recovery and Reinvestment Act of 2009 (ARRA) to provide funds for states' needs. States used various methods to close FY 2009 budget gaps, among which were cutting state spending, raising taxes, and using rainy day funds. Unfortunately, the current FY 2010 budget gap for states' is a staggering $142.6 billion and more than half of the states foresee future gaps in FY 2011. While most states have not issued projections for FY 2012, there are already 15 states projecting budget gaps. Nine out of those 15 states have an aggregate deficit of $21.1 billion. Roughly $100 billion of ARRA funds will be supplied to states by the end of this year and only half of that amount will be available next year, thus the financial situation for many states will probably get worse before any improvements are seen.



Source: Bloomberg Finance L.P.

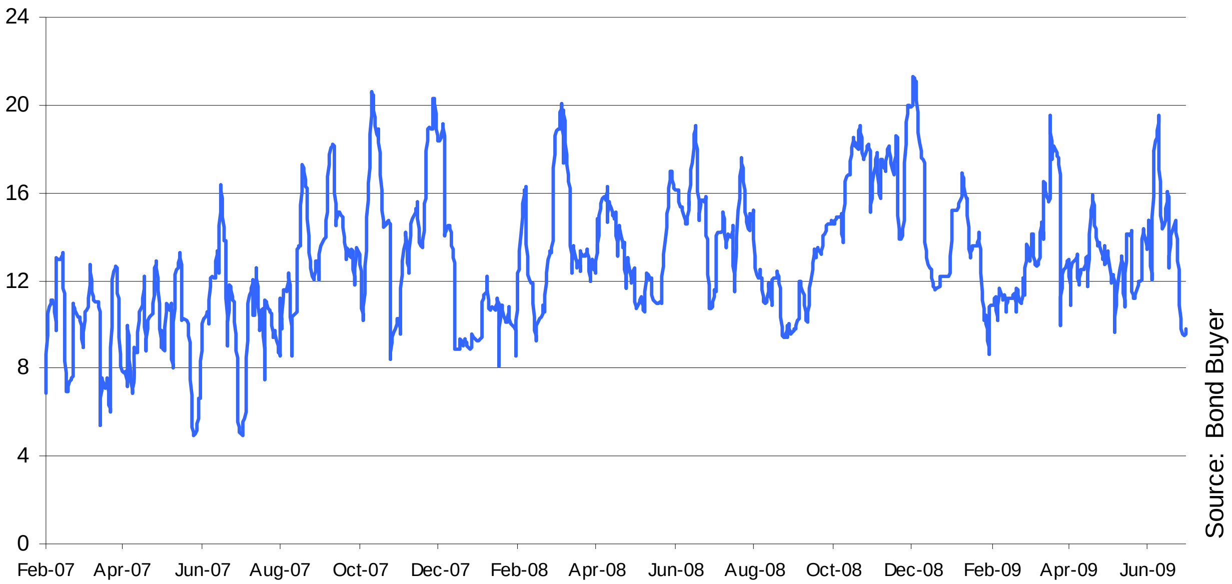




Source: Thomson Reuters

Bond Buyer 30-day Visible Supply*

Amounts in $ Billions



*As of June 30, 2009

Long-Term Municipal State Issuance by Type

As of June 30, 2009

Amounts in $ Millions

State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue
Alabama	1,371.6	680.9	690.7	**Kentucky**	2,875.0	256.2	2,618.8	**Ohio**	4,148.5	1,402.0	2,746.5
Alaska	809.5	241.1	568.4	**Lousiana**	1,373.1	175.3	1,197.8	**Oklahoma**	983.0	513.1	469.9
Arizona	4,569.0	1,264.8	3,304.2	**Maine**	592.3	203.7	388.6	**Oregon**	3,233.8	1,464.5	1,769.3
Arkansas	824.0	543.3	280.7	**Maryland**	2,208.7	1,588.2	620.5	**Pennsylvania**	9,966.2	4,757.3	5,208.9
California	35,432.0	19,201.1	16,230.9	**Massachusetts**	4,755.7	2,174.1	2,581.6	**Puerto Rico**	6,154.9	-	6,154.9
Colorado	2,364.6	834.2	1,530.4	**Michigan**	3,817.8	1,770.5	2,047.3	**Rhode Island**	724.2	219.9	504.3
Connecticut	2,822.8	2,024.3	798.5	**Minnesota**	2,382.6	1,825.7	556.9	**South Carolina**	1,382.3	603.7	778.6
D. of Columbia	2,358.1	-	2,358.1	**Mississippi**	760.2	309.4	450.8	**South Dakota**	284.2	106.8	177.4
Delaware	519.7	343.1	176.6	**Missouri**	1,714.6	636.2	1,078.4	**Tennessee**	2,669.8	1,607.3	1,062.5
Florida	7,298.2	885.0	6,413.2	**Montana**	78.4	51.6	26.8	**Texas**	14,760.5	6,453.0	8,307.5
Georgia	4,287.0	1,676.8	2,610.2	**Nebraska**	1,140.6	553.8	586.8	**Utah**	1,788.7	777.7	1,011.0
Guam	473.5	271.1	202.4	**Nevada**	1,650.6	933.9	716.7	**Vermont**	177.4	154.6	22.8
Hawaii	1,412.1	1,102.1	310.0	**New Hampshire**	444.7	69.2	375.5	**Virginia**	5,536.7	1,340.4	4,196.3
Idaho	494.9	7.2	487.7	**New Jersey**	6,746.0	1,478.4	5,267.6	**Virgin Islands**	250.0	-	250.0
Illinois	7,234.6	3,906.9	3,327.7	**New Mexico**	1,383.5	566.2	817.3	**Washington**	4,141.5	2,491.0	1,650.5
Indiana	3,000.5	68.8	2,931.7	**New York**	20,499.8	5,218.2	15,281.6	**West Virginia**	190.0	37.7	152.3
Iowa	1,640.7	869.5	771.2	**North Carolina**	4,201.1	2,074.1	2,127.0	**Wisconsin**	3,994.7	1,463.1	2,531.6
Kansas	1,941.7	1,169.5	772.2	**North Dakota**	137.1	83.7	53.4	**Wyoming**	30.2	18.9	11.3

G.O. Issuance	*78,468.7*
Revenue Issuance	*117,563.7*
Total LT Issuance	*196,032.4*

Source: Thomson Reuters

Outstanding, Ratings and Insured Volume by State
As of July 2, 2009

$ Billions	Outstanding[1]	Moody's	S&P	Fitch	$ Insured[2]	% Insured	AMBAC	MBIA	FGIC	FSA	Radian	Other
ALABAMA	32.23	Aa2	AA	AA	16.20	0.50	4.93	3.71	2.22	3.08	0.15	2.12
ALASKA	12.21	Aa2	AA+	AA	7.35	0.60	0.76	4.27	1.19	0.99	0.00	0.13
ARIZONA	55.74	Aa3	AA	NR	23.72	0.43	4.20	9.64	5.18	4.07	0.07	0.56
ARKANSAS	13.38	Aa2	AA	AAA	5.03	0.38	1.50	1.14	0.51	1.23	0.03	0.61
CALIFORNIA	481.60	A2	A	A+	249.90	0.52	47.78	101.43	38.81	53.29	1.37	7.23
COLORADO	56.91	NR	AA	NR	30.63	0.54	4.30	12.53	3.46	7.63	0.91	1.81
CONNECTICUT	42.52	Aa3	AA	AA	17.18	0.40	3.32	7.61	2.32	2.97	0.52	0.44
D. OF COLUMBIA	25.55	A1	A+	A+	13.76	0.54	2.18	5.28	2.83	3.12	0.00	0.35
DELAWARE	7.85	Aaa	AAA	AAA	2.43	0.31	0.66	1.18	0.35	0.20	0.02	0.03
FLORIDA	166.40	Aa1	AAA	AA+	96.18	0.58	20.74	39.45	14.45	17.91	0.62	3.01
GEORGIA	71.78	Aaa	AAA	AAA	25.51	0.36	3.38	10.30	3.91	6.57	0.11	1.23
HAWAII	13.25	Aa2	AA	AA	11.70	0.88	1.81	5.25	2.41	2.04	0.07	0.11
IDAHO	7.21	Aa2	AA	NR	2.52	0.35	0.33	1.04	0.38	0.65	0.02	0.11
ILLINOIS	140.32	Aa3	AA-	AA-	89.94	0.64	14.94	35.47	16.03	19.94	0.53	3.03
INDIANA	52.94	Aa1	AAA	NR	28.53	0.54	4.75	10.61	4.05	8.18	0.08	0.87
IOWA	18.97	Aa1	AAA	AA+	6.59	0.35	3.09	1.28	0.26	1.07	0.16	0.72
KANSAS	21.54	Aa1	AA+	NR	9.79	0.45	1.56	3.87	1.25	2.53	0.06	0.52
KENTUCKY	34.97	Aa2	AA-	NR	14.15	0.40	2.67	5.86	1.73	3.21	0.02	0.65
LOUISIANA	32.98	A1	A+	A+	18.92	0.57	4.97	6.64	2.96	2.98	0.16	1.21
MAINE	9.12	Aa3	AA	AA	3.35	0.37	0.96	0.94	0.25	1.12	0.00	0.08
MARYLAND	43.94	Aaa	AAA	AAA	7.94	0.18	1.66	2.31	0.97	2.18	0.23	0.60
MASSACHUSETTS	92.05	Aa2	AA	AA	39.45	0.43	9.19	13.47	4.25	10.62	0.38	1.54
MICHIGAN	83.32	Aa3	AA-	AA-	47.90	0.57	6.66	16.87	8.60	14.32	0.07	1.38
MINNESOTA	49.30	Aa1	AAA	AAA	14.03	0.28	2.02	5.11	1.02	4.67	0.13	1.08
MISSISSIPPI	18.58	Aa3	AA	AA	5.40	0.29	1.45	1.47	0.79	1.29	0.05	0.35
MISSOURI	44.89	Aaa	AAA	AAA	17.27	0.38	4.42	5.91	1.73	3.92	0.30	1.00
MONTANA	6.04	Aa2	AA	AA	1.32	0.22	0.60	0.49	0.01	0.10	0.00	0.12
NEBRASKA	16.78	NR	AA+	NR	6.21	0.37	1.61	2.15	1.14	1.18	0.11	0.01
NEVADA	30.44	Aa1	AA+	AA+	20.12	0.66	4.32	6.94	3.76	4.55	0.10	0.45
NEW HAMPSHIRE	14.17	Aa2	AA	AA	3.75	0.26	0.61	1.48	0.42	0.94	0.03	0.27
NEW JERSEY	112.78	Aa3	AA	AA-	69.90	0.62	13.01	27.16	8.66	18.66	0.32	2.08
NEW MEXICO	16.17	Aa1	AA+	NR	5.33	0.33	1.57	2.04	0.40	1.04	0.06	0.21
NEW YORK	319.87	Aa3	AA	AA-	116.80	0.37	21.13	43.87	18.32	27.51	0.86	5.11
N. CAROLINA	55.62	Aaa	AAA	AAA	12.97	0.23	3.48	4.56	1.07	3.40	0.20	0.26
N. DAKOTA	3.91	Aa2	AA+	NR	1.81	0.46	0.66	0.74	0.09	0.19	0.01	0.12
OHIO	90.19	Aa1	AA+	AA+	34.13	0.38	6.61	12.07	5.50	8.48	0.38	1.09
OKLAHOMA	18.92	Aa3	AA+	AA	7.70	0.41	2.18	2.75	1.09	0.86	0.17	0.65
OREGON	34.37	Aa2	AA	AA	18.09	0.53	2.47	5.62	4.09	5.41	0.11	0.38
PENNSYLVANIA	134.93	Aa2	AA	AA	72.27	0.54	12.91	19.88	10.87	23.73	1.29	3.59
PUERTO RICO	79.29	Baa3	BBB-	NR	25.39	0.32	5.84	9.05	4.52	4.69	0.00	1.29
RHODE ISLAND	13.89	Aa3	AA	AA-	6.22	0.45	1.69	1.83	0.46	1.70	0.26	0.28
S. CAROLINA	36.92	Aaa	AA+	AAA	16.61	0.45	4.17	4.44	1.06	5.42	0.42	1.10
S. DAKOTA	5.07	NR	AA	NR	1.31	0.26	0.23	0.32	0.07	0.62	0.00	0.07
TENNESSEE	45.49	Aa1	AA+	AA+	12.66	0.28	2.50	5.33	1.06	3.07	0.14	0.57
TEXAS	279.47	Aa1	AA	AA+	93.04	0.33	19.52	33.33	12.66	21.51	2.57	3.44
UTAH	21.06	Aaa	AAA	AAA	6.30	0.30	2.42	1.80	0.47	1.41	0.03	0.19
VERMONT	5.93	Aaa	AA+	AA+	3.87	0.65	2.18	0.52	0.08	0.99	0.06	0.04
VIRGIN ISLANDS	2.03	NR	NR	NR	0.81	0.40	0.06	0.22	0.22	0.10	0.10	0.11
VIRGINIA	60.81	Aaa	AAA	AAA	10.98	0.18	1.64	5.13	0.88	3.04	0.10	0.20
WASHINGTON	71.29	Aa1	AA+	AA	46.95	0.66	6.90	18.45	6.64	13.32	0.42	1.22
WEST VIRGINIA	10.94	Aa3	AA-	AA-	5.26	0.48	0.98	2.21	1.47	0.59	0.02	0.00
WISCONSIN	43.42	Aa3	AA	AA-	20.82	0.48	2.36	7.73	2.44	7.06	0.14	1.09
WYOMING	3.76	NR	AA+	NR	0.35	0.09	0.19	0.09	0.00	0.06	0.00	0.01

Sources: Bloomberg Finance L.P., Fitch

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

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

Long-Term Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of June 30, 2009

Amounts in $ Millions

General Obligation

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	54.5	885.5	2,334.3	3,243.1	1,796.3
Aa	10,156.4	7,185.4	12,127.0	4,726.7	6,440.2
A	13,664.0	833.9	518.9	467.6	851.8
Baa	0.0	5.2	20.1	5.5	24.9
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	23,874.9	8,910.1	15,000.2	8,442.9	9,113.1
Not Rated	1,637.0	3,776.8	3,230.8	1,203.8	3,008.6
Totals	**25,511.9**	**12,686.9**	**18,231.0**	**9,646.7**	**12,121.7**
% of Total LT Volume	**32.6%**	**16.2%**	**23.3%**	**12.3%**	**15.5%**

Revenue

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	1,596.6	2,010.8	1,620.0	1,769.8	1,159.7
Aa	9,462.9	5,157.9	14,510.0	14,534.5	9,962.4
A	5,612.5	3,858.7	13,185.9	3,051.5	1,597.3
Baa	16.3	949.6	1,235.9	1,230.0	699.6
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	16,688.3	11,977.0	30,551.7	20,585.8	13,419.0
Not Rated	5,083.3	4,831.9	9,187.6	1,712.5	3,074.3
Totals	**21,771.6**	**16,808.9**	**39,739.3**	**22,298.3**	**16,493.3**
% of Total LT Volume	**18.6%**	**14.4%**	**33.9%**	**19.0%**	**14.1%**

Source: Thomson Reuters

Long-Term Unenhanced Municipal Issuance

Regional Issuance by Moody's Long-Term Rating

As of June 30, 2009

Amounts in $ Millions

General Obligation - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	40.1	659.6	2,279.2	3,216.9	1,796.3
Aa	8,937.3	6,187.4	9,759.0	4,100.4	5,286.3
A	13,663.4	792.1	350.6	463.0	744.2
Baa	0.0	5.2	16.6	5.5	17.0
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	22,640.9	7,644.6	12,405.3	7,785.6	7,843.7
Not Rated	1,054.1	2,945.5	1,315.9	703.0	1,818.5
Totals	**23,695.0**	**10,590.1**	**13,721.2**	**8,488.6**	**9,662.1**
% of Total LT Volume	**35.8%**	**16.0%**	**20.7%**	**12.8%**	**14.6%**

Revenue - Unenhanced

	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	477.9	672.7	901.7	963.5	987.5
Aa	7,702.1	3,497.5	10,576.7	9,890.2	8,389.2
A	5,411.2	3,610.6	13,052.2	1,757.4	1,578.4
Baa	16.3	949.6	1,185.9	1,222.5	699.6
Below Baa	0.0	0.0	0.0	0.0	0.0
Total Rated	13,607.5	8,730.3	25,716.5	13,833.5	11,654.6
Not Rated	4,394.0	2,500.4	6,869.5	918.7	2,303.5
Totals	**18,001.5**	**11,230.8**	**32,586.0**	**14,752.2**	**13,958.1**
% of Total LT Volume	**19.9%**	**12.4%**	**36.0%**	**16.3%**	**15.4%**

Source: Thomson Reuters

Long-Term Municipal Issuance - General Obligation
General Use of Proceeds
By Moody's Rating Category
As of Jun 30, 2009
Amounts in $ Millions

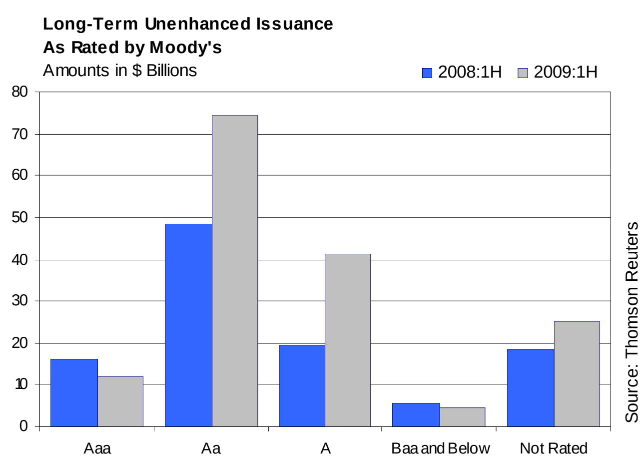
Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	2,158.1	46	15,679.2	478	1,392.6	108	17.0	4	0.0	0	7,612.7	1,027	26,859.6	1,663
General Purpose	5,663.0	106	20,127.7	463	14,768.2	133	33.0	9	0.0	0	3,473.1	620	44,065.0	1,331
Utilities	212.4	4	1,450.8	55	45.1	8	0.0	0	0.0	0	798.8	187	2,507.1	254
Public Facilities	125.9	1	234.8	8	14.3	2	0.0	0	0.0	0	4.3	5	379.3	16
Transportation	7.0	1	1,605.8	37	103.4	12	0.0	0	0.0	0	326.0	43	2,042.2	93
Housing	10.0	1	43.2	2	0.0	0	0.0	0	0.0	0	104.3	5	157.5	8
Other	148.6	12	1,529.9	67	169.1	17	5.5	1	0.0	0	604.9	122	2,458.0	219
Totals	**8,325.0**	**171**	**40,671.4**	**1,110**	**16,492.7**	**280**	**55.5**	**14**	**0.0**	**0**	**12,924.1**	**2,009**	**78,468.7**	**3,584**
% of Total LT G.O.	**10.6%**	**4.8%**	**51.8%**	**31.0%**	**21.0%**	**7.8%**	**0.1%**	**0.4%**	**0.0%**	**0.0%**	**16.5%**	**56.1%**	**100.0%**	**100.0%**

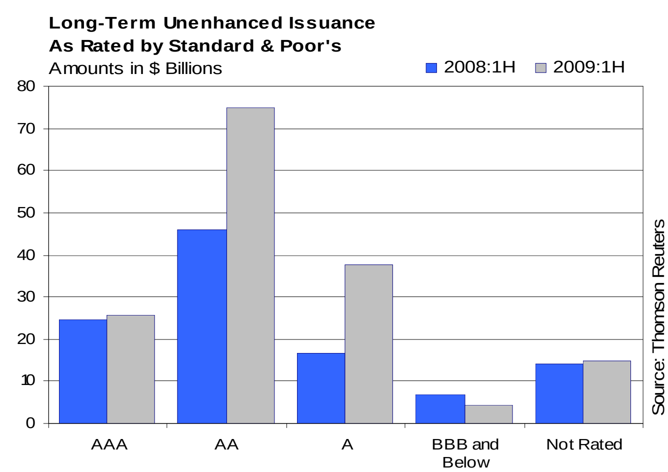
Source: Thomson Reuters

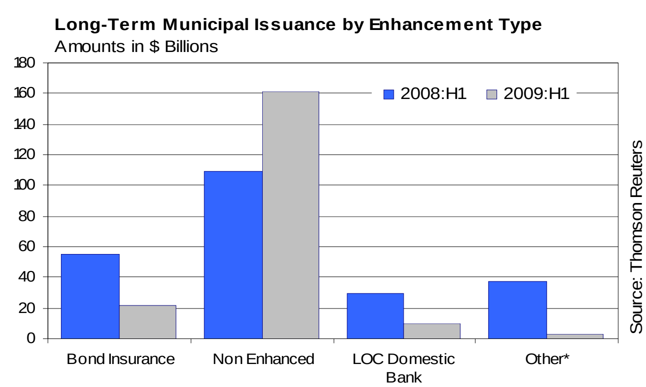
Long-Term Municipal Issuance - Revenue
General Use of Proceeds
By Moody's Rating Category
As of June 30, 2009
Amounts in $ Millions

Sector	Aaa Rating	Number of Issues	Aa Rating	Number of Issues	A Rating	Number of Issues	Baa Rating	Number of Issues	Below Baa Rating	Number of Issues	Unknown Rating	Number of Issues	Total Amount	Number of Issues
Education	2,036.6	25	12,638.4	243	4,200.2	41	319.1	2	0.0	0	3,945.9	203	23,140.2	514
General Purpose	482.3	9	7,906.7	107	9,558.3	33	128.4	6	0.0	0	2,558.9	178	20,634.6	333
Utilities	2,599.7	19	13,687.9	126	5,683.9	52	2,709.1	25	0.0	0	3,142.6	202	27,823.2	424
Public Facilities	18.4	2	1,156.3	11	152.6	3	0.0	0	0.0	0	155.6	4	1,482.9	20
Transportation	526.2	5	9,855.8	69	4,185.4	16	149.3	1	0.0	0	2,635.2	26	17,351.9	117
Housing	550.8	16	2,167.6	41	42.5	1	0.0	0	0.0	0	987.1	47	3,748.0	105
Other	2,251.1	36	8,167.0	102	4,676.5	45	1,075.4	11	0.0	0	7,212.9	165	23,382.9	359
Totals	**8,465.1**	**112**	**55,579.7**	**699**	**28,499.4**	**191**	**4,381.3**	**45**	**0.0**	**0**	**20,638.2**	**825**	**117,563.7**	**1,872**
% of Total LT Rev.	**7.2%**	**6.0%**	**47.3%**	**37.3%**	**24.2%**	**10.2%**	**3.7%**	**2.4%**	**0.0%**	**0.0%**	**17.6%**	**44.1%**	**100.0%**	**100.0%**

Source: Thomson Reuters







Total Issued with Credit Enhancement (2008) $122.5 B; (2009) $34.9 B
Total Long-Term Issuance: (2008) $231.5 B; (2009) $196.0 B
*Includes Standby Purchase Agreement, Mortgage-backed, LOC Foreign Bank, Investment Agreement and Guaranteed

A Description of Terminology in the Municipal Bond Credit Report[2 3]

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

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

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

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

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

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

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

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

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

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

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

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

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

Geographic 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.