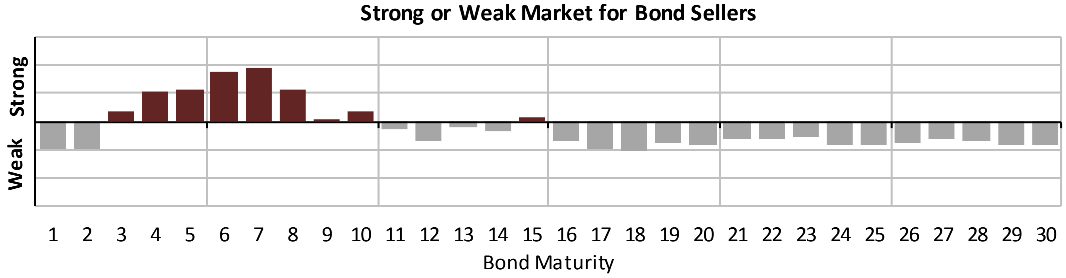
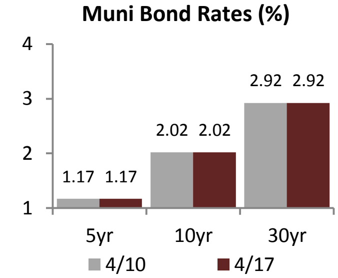
MUNICIPAL ISSUER BRIEF





*Heading into this week, the better dynamic for issuers around the 5-year part of the curve remains, while elsewhere the weak dynamic persists, although it is not as noticeable as it was the previous week. Note on **page 3** how at least one issuer took advantage of the better pricing dynamic around the 5-year maturity.*

MARKET UPDATE

LITTLE MOMENTUM IN THE MUNICIPAL MARKET: Last week the municipal market offered mixed results for issuers as the tone was more or less neutral, even as other U.S. bond markets had a more positive tone.

INVESTORS & ISSUERS: Several negative dynamics remain in place:

- Municipal yields were more or less **little changed** last week, unable to follow other bond markets into slightly lower yield ranges.
- This is in part due to **retail resistance to a lower-than-average yield range.**
- Mutual funds saw **investors exit municipals** on a net basis for a third straight week—this is the longest period of losses in 18 months, but it is a historically seasonal time for this to occur.
- On Wednesday the market saw the 2nd highest amount of bonds offered by investors in the secondary market of the year—this tends to "clog" the market and **hurts distribution of new-issues.**
- Some of these trends are seasonally related to people paying their income taxes (and selling bonds as a result) but if they do continue into the second half of the month, this **could imply a more negative dynamic for issuers selling in the near-term**.
- **This week's supply is again above the 2014 and 2015 weekly averages** with the largest scheduled issue coming via competitive markets from the state of California—a credit that has seen upgrades and a positive trading tone of late.
- A Federal investigation into the CEO of Chicago's Board of Education made for a sharp increase in yields as several large mutual funds sold the city's school district credit (see **illustration on page 2**.) This is likely to increase the issuer's borrowing costs in this week's deals (**MMA** noted to institutional clients on Friday that its rates are likely to surpass 5.30% in 2035 and 2039 maturities.)

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Higher-rated competitive deals see aggressive bidding
2) Maturities of 10-years and shorter

CURRENTLY HARDER SELLS:
1) Chicago Board of Education
2) Large New York City issuers underperforming

WHO IS REPORTEDLY BUYING:
Large domestic banks, life insurance companies, SMAs

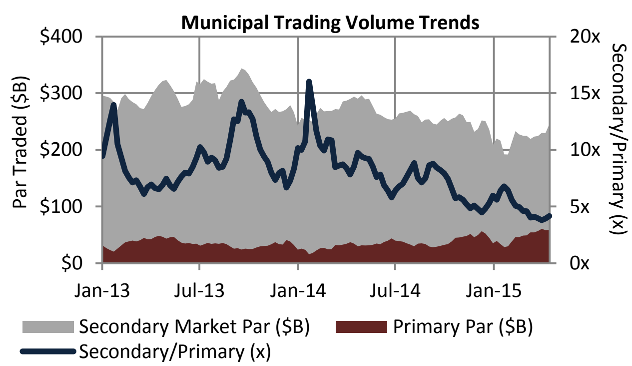


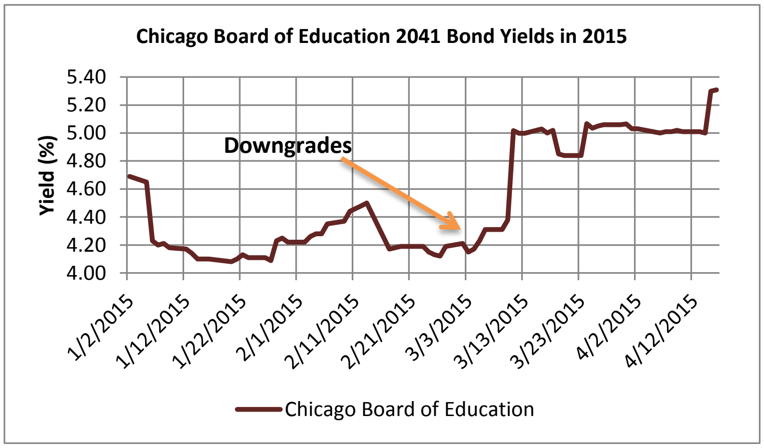
Figure 1*: Trading in the municipal secondary markets has reached a low dating back to at least January 2013 by one metric. In the chart above we track the weekly issuance (maroon area), the secondary market trading (grey area) and divide the secondary by the primary (blue line). This way we are looking at the amount of trading relative to how many new bonds are being issued during the same week. This very low trading volume complicates price discovery and can make it difficult to price a bond deal but also it acts as a disincentive for dealers to trade the market and can make for underperformance to other bond markets as was the case last week.*

MA CONDUCT RULE: The MSRB sent an updated proposal to the SEC to establish for Municipal Advisors core conduct standards, obligations and prohibitions associated with their federal fiduciary standard to issuers, and duty of care and fair dealing criteria. The 700-plus page document contains numerous provisions related to the relationship between MAs and issuers, including documentation of the MA relationship with clients, conflicts of interest, reasonable diligence conduct standards when providing a recommendation, and a host of other guidance that differentiates the role and relationship of MAs to that of broker/dealers. Next steps will be for the SEC to allow for public comments, the timeframe of which has yet to be established.

TOPIC OF THE WEEK: RATING TRIGGERS

RATING TRIGGERS: Recent fiscal, economic and pension-related challenges have plagued the city of Chicago and several of its other debt-issuing agencies in recent years. Lately, these have made headlines in the mainstream media. While Chicago's problems in many cases are unique in their breadth and origination, the recent downgrades of the city's GO and its Public School District offer items to consider for all public issuers of municipal debt. The downgrades made for a rating trigger, in essence an event that is triggered by a downgrade, like a posting of collateral, a swap termination payment or maturity acceleration. In the case of Chicago, the recent swath of downgrades put the city and its school system in a difficult position. With the downgrades, the bank counterparty on the swaps has the ability to now chose an early termination payment and exit the contract. While the bank and the issuer can agree to amend the terms to avert the payment, that has yet to occur and has been a closely watched negotiation for all investors in the school system and the city on a whole. **MMA** recently reminded investors that they should seek additional compensation for lending to any issuers exposed to a rating trigger of any sort. This is largely because triggers are almost always detrimental to traditional bond investors. Triggers expose any issuer to a third-party that can exert power to be paid ahead of bond investors. Furthermore, these remedies have the potential to exacerbate any financial problems municipalities may be already facing, which only further puts the investor at risk. And – even if the contracts can be renegotiated –there is a cost of doing so that the issuer will be paying.

WHAT THIS MEANS FOR YOU: When looking at the various options associated with a bond financing, it is prudent for any issuer to consider what occurs in the event that its credit rating is downgraded. There can be many positives to entering into a swap agreement, as far as managing the interest-rates in a bond portfolio, but there can also be high costs upon termination of the agreement. Further – in the wake of the Chicago and Detroit headlines surrounding rating triggers and swap agreements, investors are likely to begin to penalize issuers to a certain extent if they are engaged in such contracts. For governmental issuers, the most common rating triggers can be found in the financial contracts associated with swaps, bank-support agreements and direct loans.

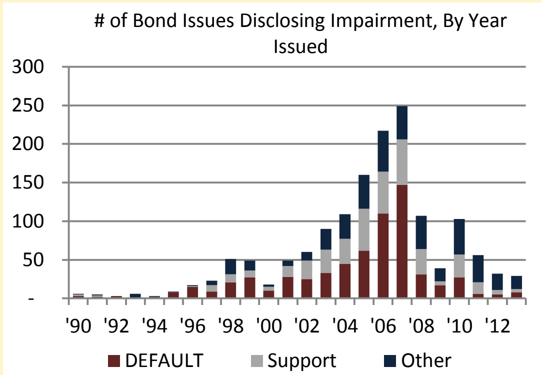


Q1 MUNICIPAL DEFAULT ROUND-UP

INSURED BONDS IN THE DATABASE: Of the $58.4 billion of bonds in the **MMA** database for being in payment default, drawing on emergency support, or another technical default/violation, $12.8 billion are wrapped with a monoline bond insurance policy. This relatively large number, however, is driven by a handful of large impaired situations, not only including **PREPA** and **PRASA**, but also **Harrisburg** and **Detroit**: the latter two being situations that remain impaired/dependent on payments from the monolines to cover a portion of debt service to bondholders. In **the chart to the right**, we show the amount of insured par wrapped by each company in the database versus their amount of total insured par outstanding. For the companies still writing new business, database bonds account for a very low percentage (0-2%) of outstanding policies (this is good for those considering wrapping a future deal), but note how almost 22% of ACA-wrapped bonds still outstanding are being tracked as impaired by **MMA**.

VINTAGE STATISTICS STILL LARGELY INTACT: **MMA** also updated our "vintage" data that displays patterns between a bond's being impaired and the year in which the bond was issued. In general, we continue to see a large amount of payment problems in the years leading up to the financial crisis with a peak in 2007. Many were land secured deals associated with the housing boom during that time. **See right**.

Impaired & Insured Bonds ($B)			
Monoline	Wrapped Par In Database	Wrapped Par Outstanding	% Par In Database
ACA	487	2,250	21.64%
AMBAC	1,861	130,616	1.43%
ASSURED	3,484	310,077	1.12%
BAM	-	15,355	0.00%
BHAC	-	4,175	0.00%
FGIC	1,501	16,595	9.05%
NATIONAL	4,519	236,959	1.91%
SYNCORA	930	21,548	4.32%
total	12,783	733,663	1.74%



REGIONAL BOND ISSUES (Moody's/S&P/Fitch)

- **Three large deals that influenced the entire market and why (in yellow):**
- The **New York City Transitional Finance Authority** had to increase yields before closing the account in part because several large New York issuers have come to market this month and many local investors did not participate in the deal.
- Triple-A **Virginia** received aggressive bidding from Citigroup in large part because the underwriter had pre-orders from several insurance companies. The following day several of the bonds traded cheaper in secondary markets because the general market continued to struggle.
- Once again the **Florida Board of Education** announced a competitive deal 18-hours before selling. The deal was mostly structured 10-years and in and did very well. Last week's ***MIB*** noted value in the 5-year part of the curve because of the aggressive value MMD benchmark had put there.

NORTHEAST

4/16: **Loop Capital Markets** priced $650 million future tax secured subordinate bonds for the **New York City Transitional Finance Authority**; Aa1/AAA/AAA; callable at par in 2/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.37	+20
2025	5.00	2.27	+26
2042	5.00	3.24	+37

Notes: The +37 to MMA AAA Benchmark is wider than recent trades

MID-ATLANTIC

4/15: **Virginia** sold $215 million general obligation bonds to **Citigroup Global Markets Inc.**; Aaa/AAA/AAA; callable at par in 6/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	4.00	1.25	+8
2025	5.00	1.91	-10
2037	3.00	3.22	+49

Notes: Lower coupons outside of 10-years indicates insurance cos.

MIDWEST

4/14: **Dayton, Minnesota** sold $2.3 million general obligation street reconstruction bonds to **Stifel Nicolaus & Co.**; NR/AA/NR; non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2017	2.00	0.60	+15
2020	2.00	1.20	+3
2023	2.00	1.55	-22

Notes: Bank eligibility played a role in this low-cost financing

SOUTHEAST

4/14: The **Florida Board of Education** sold $258 million public education capital outlay refunding bonds to **Goldman, Sachs & Co.**; Aa1/AAA/AAA; non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2016	5.00	0.27	+6
2020	5.00	1.34	+17
2022	5.00	1.71	+10

Notes: This issuer attempts to time the market with 18-hour notice

SOUTHWEST

4/15: **FirstSouthwest** priced $9.5 million unlimited tax refunding bonds for the **Roma Independent School District, Texas**; A3/NR/A+; PSF (Aaa/NR/AAA); non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.22	
2020	4.00	1.54	+37
2025	5.00	2.28	+27

Notes: PSF wraps have seen increased use with the states' growth

FARWEST

4/13: **Wells Fargo Securities** priced $16.6 million water system revenue bonds for **Tacoma, Washington**; Aa2/NR/NR; callable at par in 6/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2017	4.00	0.88	+43
2020	5.00	1.61	+44
2025	5.00	2.36	+34

Notes: Issuer took advantage of strong pricing in short maturities