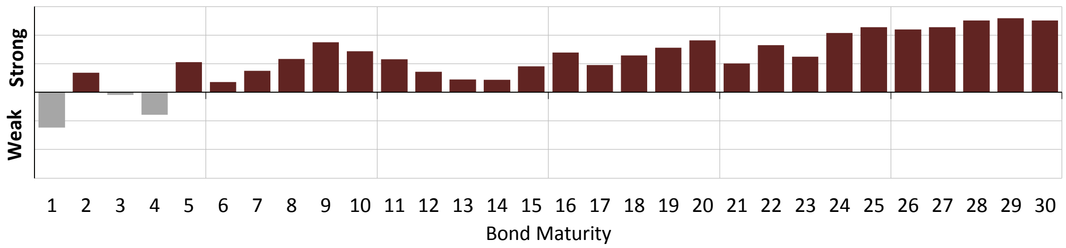
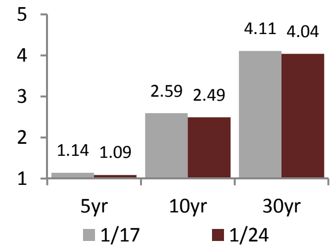
MUNICIPAL ISSUER BRIEF





Heading into this week, most bonds are in the 'strong' column, reflecting the strength of the broader market this January. Most issuers should benefit from coming to market this week as interest rates remain historically low and the momentum has been in issuers' favor for some time now.

MARKET UPDATE

THE RALLY CONTINUES: Last week, most bond markets rallied and helped to move to lower interest rates—a trend that has continued all January for municipal issuers.

INVESTORS & ISSUERS: There are 4 major themes helping rates:

- **1) Below-average issuance continues to help keep borrowing rates low.** Historically, there are many more bonds issued in the last two weeks of January, which at times slows down the market. This year that has not happened, which continues to keep this a favorable market for issuers of all ratings and sizes.
- **2) Treasury markets improved last week as broader economic concerns had investors moving into safer bond markets.** This only helped municipal issuers and could continue to this week.
- **3) A higher tax burden from 2013 is keeping many retail investors invested in municipals.** That stock markets did so poorly last week also helps to keep investors in municipals.
- **4) The mutual fund picture continues to improve slightly.** MMA is not convinced mutual fund cash inflows are sustainable. However, the cash inflows currently contribute to strong demand for new municipal bond issues.
- **Looking ahead to this week: Wisconsin** is competitively selling GOs on Wednesday. Competitive deals have fared well lately—especially among issuers that have strong ratings and good name recognition. Last week's MIB focused on **Washington** GOs that were aggressively bid by dealers. Next, for issuers of longer-dated bonds, keep an eye on **New York City Municipal Water Finance Authority** and its sale of mostly longer-dated bonds. This issuer has a bellwether name for all longer maturing bonds.

BUYER BITES:

WHAT IS TRENDING HOT:
1) California GOs still on a run
2) Competitive deals
3) Short call structures
4) A-rated or lower

CURRENTLY HARDER SELLS:
1) 4% coupons or lower outside of 20-years

WHO IS REPORTEDLY BUYING:
Mutual funds, SMAs, retail and life insurance companies and non-traditional investors 20-years and out

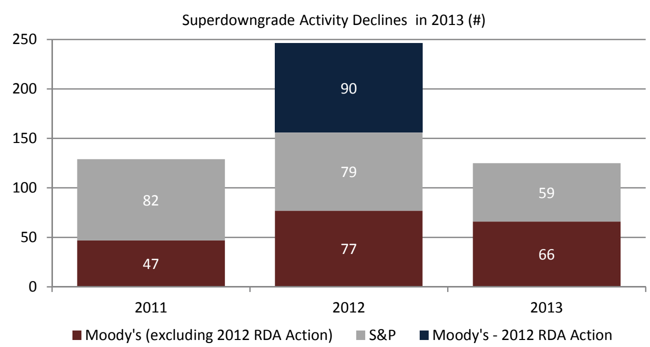


__Figure 1:__ Superdowngrades (rating cuts of 3 notches or more) are particularly disruptive to investor sentiment. According to Bond Buyer data, the number of superdowngrades fell last year to 125, a reduction of 50% versus 2012 (or 20% if you take out California RDA). Superdowngrades can have a number of effects on issuers even if they are not downgraded themselves. Issuers that have been in the market for 2 or more years should also be especially aware of this phenomenon that began to impact the market in a more concerted way in 2011. This week's __Topic of the Week__ on __page 3__ looks into the issue and what it means for you.

ADVANCE REFUNDINGS: The relative value of municipals to Treasuries has declined to a point where some issuers may be able to do an advance refunding. The 10-year ratio of municipals to Treasuries is at 91.8% versus the 4th quarter of 2013 average of 99.6%. This has reduced negative arbitrage and could mean issuers may be able to take advantage of low interest rates and do an advance refunding. You may want to talk to an advisor or consult with your debt managers.

EXPERIENCE. COMMITMENT. STRENGTH.

national public finance guarantee

For over 35 years as MBIA's Public Finance Division, we led the industry with the largest and most diverse book of municipal business, and offered an unconditional and irrevocable guarantee to our clients. Today – as National Public Finance Guarantee – we remain the largest municipal-only financial guarantee insurer in the business, and we continue to stand by our pledge to make good on any claims against the policies we have issued for the bonds we have insured. Throughout the market instability and liquidity crisis, we have stood strong. Today, we have retained our financial strength, earnings power, robust claims paying resources and rigorous surveillance capabilities. Like the infrastructure we insure, we are built to last and built to serve. Call us today to reach the most experienced credit analysts in the industry. We look forward to doing business with you in the near future.

Ted Galgano
914 765 3517
ted.galgano@nationalpfg.com

Dan McManus
914 765 3533
daniel.mcmanus@nationalpfg.com

Nick Sourbis
914 765 3385
nicholas.sourbis@nationalpfg.com

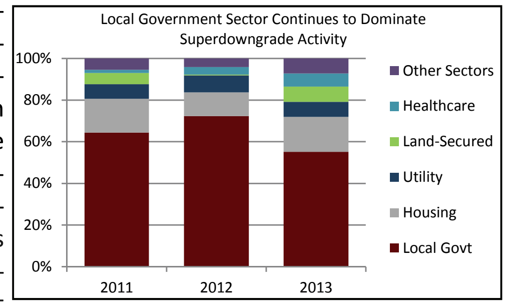
Built to last. Built to serve.

www.nationalpfg.com

TOPIC OF THE WEEK: SUPERDOWNGRADES

SUPERDOWNGRADES: When a rating agency reduces the credit rating of an issuer by 3 notches or more **MMA** calls the action a "superdowngrade." Since the financial crisis 5 years ago the level of superdowngrades has increased as the crisis took its toll on state and local governments. A superdowngrade is particularly disruptive to investor sentiment as when they occur it creates unpredictable volatility in municipal credit quality. Not only does it weaken investors' appetite for these bonds but it also undermines investors' value in rating agencies themselves. **Figure 1** on **Page 1** demonstrates that in 2013 there were 125 of these events, a drop of 50% from 2012 and also slightly lower than in 2011—a very positive sign for the overall health of the market. The 2012 data was also elevated by the state of California's material change in the taxing ability of Redevelopment Agencies (RDAs). The change resulted in a large amount of downgrades to California RDAs—hence **Figure 1** separates them out as an atypical event.

WHAT IT MEANS FOR YOU: **MMA** expects superdowngrades to continue to slow in 2014 as economic and financial environments improve for state and local governments and as rating agencies' post-financial crisis methodologies mature—this is positive for all issuers. If you have been superdowngraded, your borrowing costs have likely risen because not only because of the large rating change but also your bonds are experiencing a lack of liquidity in secondary markets and hence poor price discovery. Also, an issuer tangentially associated with a superdowngraded area or sector can also suffer increase borrowing costs. Issuers in the states of **Michigan**, **California** and **Illinois** together totaled nearly half of all downgrades in 2013. Furthermore, **Michigan**'s changing treatment of the priority of payment for local unlimited tax general obligation bonds could also trigger more of these downgrades. Issuers in these states should be especially vigilant in monitoring the trend. The **chart to the right** breaks out superdowngrades by "sector." Local government rating adjustments dominated superdowngrade activity. Reconsiderations by the rating agencies of pension obligations and lack of robust issuer disclosure practices could trigger more of this activity. Issuer in these sectors, should also carefully track this trend. Finally, and perhaps most wide-ranging of importance, if you have not issued bonds for the past 2 years, these general market credit events mean that you could be exposed to a superdowngrade. **MMA** notes that in many cases issuers who are applying for a rating for the first time in many years can be negatively affected by recent methodology changes rating agencies have imposed since the financial crisis. Infrequent issuers should be especially sensitive that their rating may be substantially different than the last time one was obtained.



PENSIONS, TOWER AND RATINGS

ROCKEFELLER REPORTS ON PENSIONS: The Rockefeller Institute of Government recently released a report on the state of public pensions, suggesting that the approach taken to funding public defined-benefit plans is "deeply flawed" and Congress should consider ways to improve it. The report pegged the figure of $2 billion to $3 billion of unfunded liabilities and called the issue a "national concern." The report suggested that the Municipal Securities Rulemaking Board (MSRB), the Securities and Exchange Commission (SEC) and Congress should ensure that governments value pension liabilities using discount rates that reflect the risk of the payments, which is separate from the question of the rate pension funds will earn on their investments. "The major significance of valuing liabilities incorrectly is that it leads to inadequate funding policies, encourages the mistaken belief that benefits can be greater, services can be greater, or taxes lower while still funding benefits securely," the report said.

VOLCKER, RAVITCH WEIGH IN ON TOWER: Former Federal Reserve Chairman Paul Volcker and former New York Lieutenant Government Richard Ravitch released a report calling for more federal oversight of municipal issuers, including possible changes to the Tower Amendment. The two men led the State Budget Crisis Task Force, which recently released a report on state budgets. Volcker and Ravitch said that the Tower Amendment should be "revisited so the SEC can require issuers to comply with sensible disclosure requirements as well as with robust accounting standards." The report focused on state budgets and underfunded pension systems, as well. They did not elaborate on how the Tower Amendment should be changed.

MOODY'S PUTS 256 LOCAL GOVERNMENTS ON RATINGS WATCH: Citing recent methodology changes, Moody's Investors Service has put 256 local government GOs on review for possible upgrade or downgrade. The rating agency has put more focus on pension obligations — 20% from 10% — and lowered its weight on economic issues to 30% from 40%. Moody's said 132 may be upgraded and 124 may be downgraded after the review, which will take 90 to 180 days to complete. The **Municipal Issuer Brief** looked at split ratings in its December 2 issue and the MIB discussed in late October the revised criteria being used by Moody's and Standard & Poor's, which has contributed to divergent rating trends.

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

NORTHEAST

On January 22nd, **JPMorgan Securities LLC** priced $250 million Partner Healthcare system revenue bonds for the **Massachusetts Development Finance Agency**; Aa2/AA/AA; callable at par in 7/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.55	+41
2024	5.00	3.21	+62
2039	5.00	4.44	+40

Notes: The issuer saw strong institutional demand.

MID-ATLANTIC

On January 23rd, **Fairfax County, Virginia** sold $316 million of unlimited tax general obligation bonds to **Citigroup Global Markets Inc.;** Aaa/AAA/AAA; callable in 10/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.25	+16
2024	5.00	2.65	+7
2033	4.00	3.72	-1

Notes: A gilt-edged rating and competitive sale was advantageous.

MIDWEST

On January 23rd, **Stifel Nicolaus & Co.** priced $47 million of unlimited tax general obligation bonds for **Rochester Schools, Michigan**; NR/AA-/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	4.00	0.35	+15
2017	4.00	0.79	+31
2019	4.00	1.48	+35

Notes: Deal of special note in light of the state's treatment of GOs.

SOUTHEAST

On January 22nd, **Raymond James & Associates** priced $6 million of revenue bonds for **Northeast Alabama Water, Sewer & Fire Protection**; NR/Applied/NR; callable in 5/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.60	+47
2024	3.00	2.97	+39
2027	4.00	3.35	+26

Notes: Bank-qualified deals continued to see good demand.

SOUTHWEST

On January 22nd, **RBC Capital Markets** priced $16 million of unlimited tax general obligation bonds for **Leander Independent School District, Texas**; NR/AA-/NR; PSF insured; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.18	-2
2017	5.00	0.66	+18
2019	5.00	1.36	+23

Notes: The short structure & PSF insurance made this an easier sell.

NORTHWEST

On January 23rd, **Goldman, Sachs & Co.** priced $54 million of revenue bonds for **Washington State University**; Aa2/AA/NR; callable at par in 4/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	1.75	1.30	+18
2024	5.00	2.87	+33
2029	5.00	3.58	+26

Notes: Credit strength and infrequency in issuing were attributes.