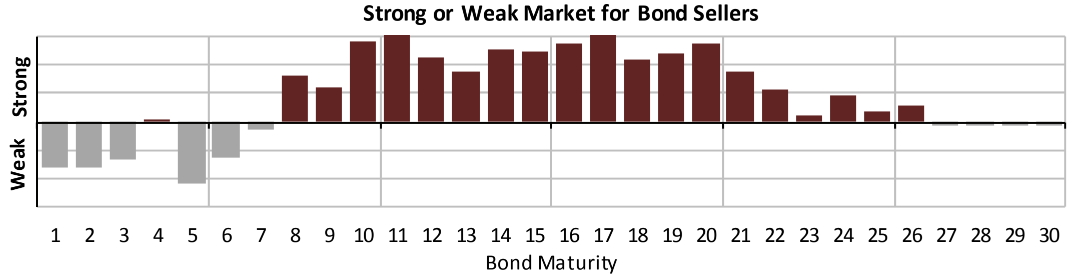
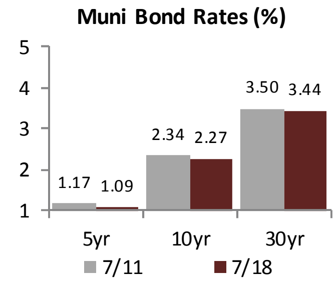
MUNICIPAL ISSUER BRIEF





*Heading into this week, the advance of the municipal market (with most other bond markets) puts the current new-issue dynamic squarely in issuers' favor 8-years and longer. In fact, as noted in **Buyers Bites below**, the intermediate portion of the yield curve saw the strongest demand last week and this continues into this week.*

MARKET UPDATE

INTERNATIONAL EVENTS SPARK RALLY: After a largely slow start to last week, on Thursday a Malaysian flight was shot down in Ukraine, and Israel ground operations began in Gaza, sparking a large Treasury rally with tax-exempts following to lower yields.

INVESTORS & ISSUERS: A likely positive week lies ahead for issuers:

- The dramatic events abroad led investors to purchase U.S. Treasury bonds for safety, which initiated a rally in Treasuries **and municipal bonds went along for the ride**. The US Treasury 10- and 30-year bond yields fell to year lows.
- The picture for municipal bond mutual funds began to improve last week, **providing a better back-drop for issuers this week than at July's start, when these same funds lost investors.** When funds lose investors, they sell their holdings in the secondary market and compete with issuers for investor attention.
- The modest new-issuance calendar did very well last week with the **Bay Area Toll Authority** seeing more than $7 billion in orders on its $1 billon issue (see **page 4** for more on how regional deals fared last week). **This large amount of orders bodes well for the entire market as the new week begins.**
- New-issuance remains on the lighter side again this week, which is historically in line with the month of July.
- Triple-A **Maryland** will sell $880 million GOs, with a negotiated transaction that began on Friday and had a good reception. How the state fares will set the tone for AAA Benchmarks **and for the entire high-grade market, as well as competitive sales.**
- Puerto Rico credits began to improve at a very fast clip, after taking a bludgeoning at the start July. The rebound suggested that, **for now, the industry has weathered the latest round of negative headlines out of the troubled territory.**

OBAMA AGAIN PUSHING PRIVATE CAPITAL: Last week, President Obama introduced his plans for incentivizing private investment in public infrastructure as the House and Senate continued their plans for a short-term funding fix for the near bankrupt Highway Trust Fund. (The House approved a 10-month fix.) Obama's plans include a center at the Department of Transportation to create partnerships between state and local governments and public and private investors. The plan also creates a Build America Interagency Working Group, run by Treasury Secretary Jack Lew and Transportation Secretary Anthony Foxx. This will be a future ***MIB*** Topic of the Week and at that time we will offer further explanation of what this really means.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) 10-year to 20-year maturing bonds
2) Single-A or higher healthcare
3) Puerto Rico
4) Texas PSF-wraps

CURRENTLY HARDER SELLS:
1) Single-A or lower healthcare
2) Illinois

WHO IS REPORTEDLY BUYING:
Large banks, property & casualty insurance companies, SMAs & high-grade focused mutual funds.

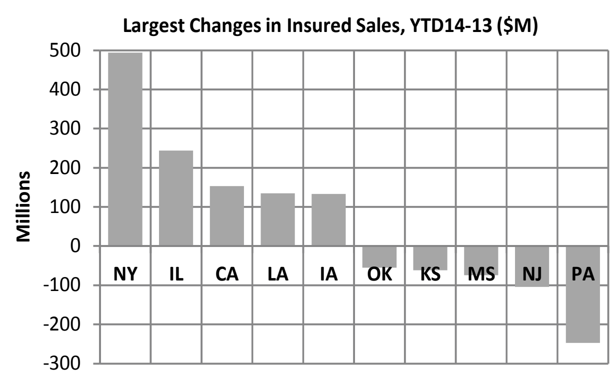
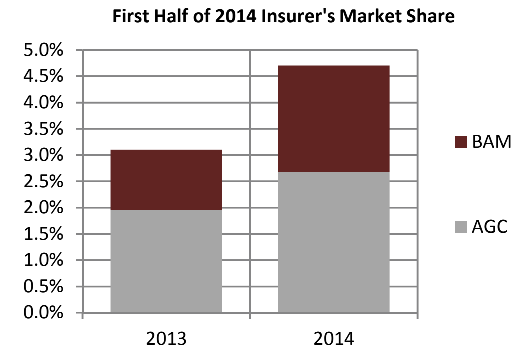


***Figure 1:** Through the last 1 1/2 years, the state of New York has seen the largest increase in issuance of insured bond deals. NY, Illinois, California, Texas and Pennsylvania have by far seen the largest amount of insured issues in recent years but note that PA's and NJ's share is on the decline. On **page 3** this week we look at the developing trends in bond insurance through the first 6 months of the year with a review of the implications of changing trends along with our expectations for the insurance industry going forward.*

TOPIC OF THE WEEK: BOND INSURANCE UPDATE

BOND INSURANCE: Bond insurance is on the rise so far this year. Through the first 6 months of 2014, **MMA** notes a material increase of 18% in insured issuance—or roughly $1 billion in new municipal bonds with a policy—compared to the same time period last year. Insurance penetration, or the percent compared to all issuance, also rose more quickly: encompassing 4.7% of all issues through the first half of 2014 compared to 3.2% in 2013. The increase in market share is in part because of the drop in refunding deals this year (as refunding deals are much less insurable). The biggest increase in insurance underwriting came from **Build America Mutual** with about $800 million in insured issues in the last 6 months (**see chart to the right**), which almost doubled that company's primary market-share. There was also a small shift in geography. While insurance is still highly concentrated in 5 states (CA, TX, PA, NY and IL) making up 74% of all insurance use, there was a jump in NY issuers reflecting a handful of larger GO wraps, but a drop in PA and NJ issuers (see **Figure 1** on **Page 1**). The overall sector mix is also quite strong with 76% of insurance in 2014 coming from historically safe sectors. Looking ahead, **MMA** expects the insurance companies to continue to regrow their businesses slowly, limited by tight credit spreads and a lack of rating-eligible, but still safe-sector, bond issuance. As noted in the March 31st ***MIB*** edition (can be found here), the return of **National Public Finance Guarantee** to the industry after 5 years out of the business, is expected to continue to help boost total industry penetration with **MMA**'s expectation of 8% to 10% of all issuance to be insured within the next 5 years.



WHAT THIS MEANS FOR YOU: As the use of bond insurance grows, it becomes more likely that governments and/or their advisors will be pitched the product. Recall that in general, insurance is now viewed as a security enhancement and not as a security replacement. This means that in general the benefit of insurance may not be perceived as valuable as in the past. However, if penetration does grow to 10% of new-issues, expect the value of a policy to increase as the market will have increased its acceptance of the product. Aside from the cost/benefit analysis, issuers should also consider what the changes in the first half of this year suggest for how the market perceives a wrap and how the shifting trends of insurance-use affect the benefit. States that are seeing more insurance, in theory, are seeing more investor acceptance, and issuers in these states could potentially see larger savings as a result of insurance. As insurers are mostly wrapping safe sector securities and they still have a diminished appetite for riskier structures that issuers might create to finance new-products—**MMA** expects fewer lower-rated issuers to be able to attain insurance at an amendable cost. There are certain niches, however, that the insurance companies have targeted, such as state-enhanced school districts, tax-increment financing and toll-way deals. Issuers considering these types of financings may want to consider insurance.

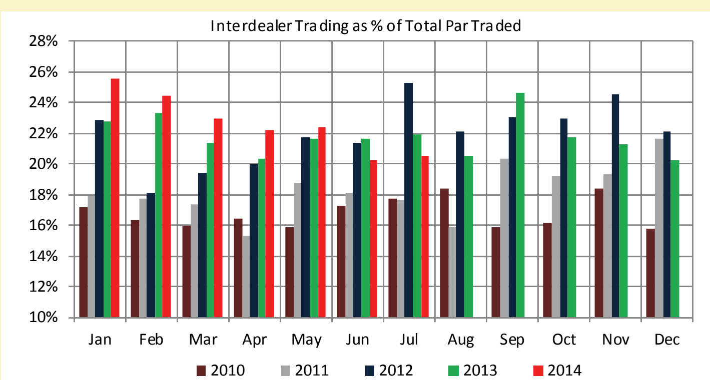
REGULATORY ROUND UP

MSRB SECONDARY TRADING REPORT: Last week the Municipal Securities Rulemaking Board (MSRB) published a report on secondary market trading in the municipal market. The report's goal is to provide data about municipal bond trading that can help determine price differentials of bond trades in the marketplace, depending on how the bonds are traded. The report analyzed 43 million principal trades of over one million fixed-rate municipals issued between 2003-2010. This is a fine academic study, but has little implications for issuers. Highlights of the report include:

- The 2005 implementation of trades being reported within 15 minutes of execution helped lower price differences for customer-to-customer trades; and
- When an investor buys or sells a bond through a dealer, the price difference is greater than when dealers buy and sell from each other, especially when the duration of time between trades is longer.

The **chart to the right** illustrates that trades between dealers and other dealers instead of customers has increased in recent years implying less profitability for these institutions.

MCDC PUSHBACK CONTINUES: Rep. Steve Stivers (R-OH) last week said the Securities and Exchange Commission (SEC) should limit its Municipalities Continuing Disclosure Cooperation (MCDC) initiative to the past 2 years instead of 5. If the SEC does not scale back the initiative, Stivers said he and other lawmakers may introduce legislation to do so. Stivers spoke at a House Appropriations Committee hearing on funding for the Treasury Department. Stivers has written legislation in the past that focused on altering the SEC MA Rule, and his bills are often in line with industry groups' positions.



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

NORTHEAST

On July 17th, **Mamoroneck Township, New York** sold $8.8 million of limited tax general bonds to **Roosevelt & Cross Inc.**; Aa1/NR/NR; callable in 7/15/2022:

Maturity	Coupon	Yield	+/- AAA 5%
2019	2.00	1.30	+16
2024	2.50	2.35	+3
2029	3.00	3.00	+13

Notes: The BQ deal with lower coupons enticed bidders

MID-ATLANTIC

On July 15th, **Piper Jaffray & Co.** priced $15 million of limited tax general obligation bonds for the **Allegheny Valley School District, Pennsylvania**; A1/AA/NR; callable in 11/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.92	+78
2024	5.00	3.08	+76
2028	4.00	3.50	+72

Notes: The lack of PA school district paper & BAM helped

MIDWEST

On July 15th, **Morgan Stanley & Co.** priced $250 million of highway revenue bonds for the **Kansas Department of Transportation**; Aa2/AAA/AA+; callable in 9/1/2020:

Maturity	Coupon	Yield	+/- AAA 5%
2025	5.00	2.54	+10
2029	5.00	2.89	0
2030	5.00	2.96	-3

Notes: Despite uncertainty in DC funding, this highway deal did well

SOUTHEAST

On July 16th, **Morgan Stanley & Co.** priced $190 million of general obligation bonds for **Tennessee**; Aaa/AA+/AAA; callable at par in 9/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.29	+13
2024	5.00	2.41	+7
2034	5.00	3.17	-9

Notes: Highly rated, the long end of the deal was very well received

SOUTHWEST

On July 16th, **Wells Fargo Bank NA** priced $87 million of limited tax general obligation bonds for the **Laredo, Texas Community College District**; Aa3/AA-/AA-; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.49	+35
2024	5.00	2.79	+47
2034	3.75	3.59	+35

Notes: Higher education deals have fared well of late

FARWEST

On July 16th, **Goldman, Sachs & Co.** priced $215 million of state lottery revenue refunding bonds for **Oregon**; Aa2/AAA/NR; callable in 4/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.28	+12
2024	5.00	2.47	+13
2027	5.00	2.80	+12

Notes: The issuer re-priced to lower yields on scarcity of state paper