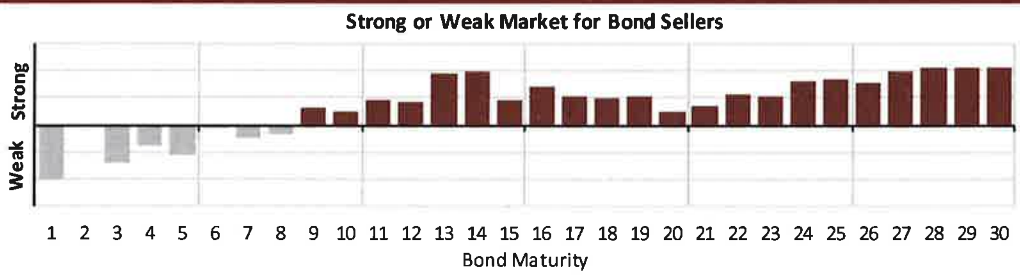
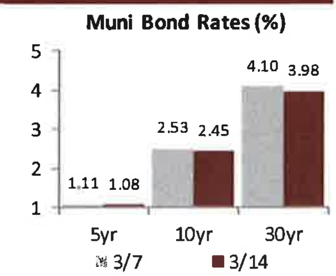
MMA The Power of Independence

MARCH 17, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, we now see every maturity 9-years and out squarely in the "strong" column following last week's rally, which reversed last Monday's more tenuous conditions for issuers. Shorter maturities, which did not participate in the rally to a large extent, were not as positive for capturing value.

MARKET UPDATE

MARKET RALLIED AND SET UP WELL THIS WEEK: While supply was the largest in 3 months for the municipal market, borrowing rates for issuers declined throughout the entire week.

INVESTORS & ISSUERS: Conditions are positive for issuers this week

- **Issuance drops to a miniscule $3 billion this week after a behemoth $12 billion last week.**
- There was **ample demand for last week's deals** and when that became evident, outstanding bonds began to improve.
- Other bond markets also began to rally late last week on global concern about the situation in Ukraine. **This extended good performance for municipal bonds on Thursday and Friday**.
- The factors above **have those issuers scheduled to come to market this week likely seeing favorable conditions.**
- Puerto Rico **sold the largest junk bond deal in municipal history** (increased to $3.5 billion) last week with a large 8% coupon priced at a discount.
- The PR bonds initially traded to higher prices but **by Friday afternoon it has lost steam and began to cheapen**. This plus much weaker prints on the island's utility service provider bonds has Puerto Rico in the **Harder Sells** box in **Buyers Bites**.
- After receiving a downgrade, **Chicago successfully placed its GO bonds and were able to re-price the bonds to lower yields**. Institutional investor interest was high for the city.
- Last week **several large bank buyers stepped up to purchase some of the larger, high-grade bonds** such as **NY Dorm Authority** and **Wisconsin** GO. We expect that to continue this week. High-grade issuers take note.

SEC SELF-REPORTING: The Enforcement Division of the Securities and Exchange Commission (SEC) last week announced an initiative to encourage issuers and underwriters of municipals to self-report certain violations of the federal securities laws rather than wait for their violations to be detected. Under the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative, the Enforcement Division will recommend standardized, favorable settlement terms to municipal issuers and underwriters who self-report that they have made inaccurate statements in bond offerings about their prior compliance with continuing disclosure obligations specified in Rule 15c2-12 under the Securities Exchange Act of 1934.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) California GO, Chicago GO
2) 5% coupons 20-years or longer
3) Lower-rated utilities revenue bonds

CURRENTLY HARDER SELLS:
1) Puerto Rico
2) 3% coupons 20-years or longer

WHO IS REPORTEDLY BUYING:
Property & casualty insurance companies, mutual funds, large and small banks

Figure 1: *The municipal market is shrinking. Issuance is on the decline not only because of issuer austerity but also the recent market volatility that has put the economic advantage of current refundings "off the table" for many issuers. Along with the size of the market, the **Federal Reserve** released its statistics on municipal bond ownership for the last quarter of 2013 earlier this month. A full review of what the Federal Reserve data means for issuers is on* ***page 2*** *in this week's* ***Topic of the Week.***

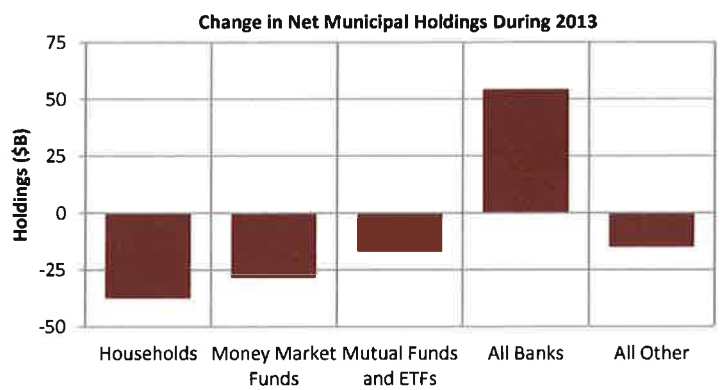
TOPIC OF THE WEEK: WHO IS BUYING MUNICIPAL BONDS?

BOND BUYERS: The latest data from the **Federal Reserve** emphasizes municipal bond ownership trends that either drastically altered the marketplace in 2013 or in other cases cemented the importance of new municipal bond investors. Biggest takeaways:

- The municipal market continues to shrink (**figure 1 on page 1**). In the 4th quarter of 2013 the size of the market decreased by $14B as issuance was lighter and older bonds matured.
- Mutual funds, households and money market funds together shed $77B of municipal bonds (**below, right).**
- Broker-dealers held 30% less municipal bonds at the end of 2013 compared to the end of 2012 (**below, left**).
- Banks continued to increase their municipal bond ownership despite headwinds. Insurance companies also added albeit at a slower pace (**below, left**).

WHAT THIS MEANS FOR YOU: A smaller market means that states and localities' infrastructure needs are not being financed as thoroughly or issuers are finding other means to raise funds. This results in A) those that do access the market are more likely to see the supply/demand balance tilt in their favor and B) issuers are being more conservative with their wallets—a positive credit theme that should be portrayed to investors. With the start of 2014 seeing so little issuance, we expect this trend to be exacerbated when we receive the next round of data. This data set on mutual funds does not reflect the modest resurgence that has occurred for these investors in 2014, but underscores how the market can respond negatively with the loss of an important investor base as evidenced by the volatility of 2013. Mutual funds will continue to play a role in this market but the growth of other investors—banks, insurance companies and separately managed accounts—is something issuers should take into account and market their bonds to these investors. Finally, broker-dealers will continue to hold fewer municipal bonds given a new regulatory regime being put in place. This may continue to hurt secondary market liquidity, which makes price discovery for pricing your bonds in the primary markets more difficult at times.

Investor Segment	$B	Share	Change	Change	Change
	4q13	% Market	$ Qtr	% Qtr	% Ann
Households	1617.2	44.05%	-29.4	-1.79%	-2.27%
Money Funds	308.3	8.40%	3.2	1.05%	-8.43%
Mutual Funds	622.3	16.95%	-9.9	-1.57%	-2.72%
Closed End Fds	86.1	2.35%	0	0.00%	0.47%
Non-Fin. Cos.	26.6	0.72%	5.6	26.67%	-22.67%
Banks	420	11.44%	12.5	3.07%	14.85%
Broker Dealers	18.6	0.51%	0.3	1.64%	-30.08%
Prop/Cas. Ins.	332.3	9.05%	0.4	0.12%	1.43%
Life Insurers	135.1	3.68%	1.5	1.12%	2.82%
GSEs and Gov'ts	13.2	0.36%	-0.6	-4.35%	-22.35%
Foreign Buyers	66.4	1.81%	3.1	4.90%	-2.21%
Total	3671	100.00%	-13.9	-0.38%	-1.20%



REGULATORY CORNER

Best Execution: The MSRB proposed new rulemaking to establish a best execution standard for municipal securities dealers to "seek the most favorable price possible when executing transactions for retail investors." This rulemaking is being proposed for the first time by the MSRB in an effort to ensure that transactions are executed at a price most favorable as possible for the investor. This rulemaking aims to mirror, where possible, similar rules in place for equity and fixed income markets by the Financial Industry Regulatory Authority (FINRA). The proposal also includes suggested language that would allow an opt-out provision for transactions with sophisticated investors. Public comments will be accepted through March 21.

Supervision Rule for Municipal Advisors: The MSRB is continuing to develop new regulations for municipal advisors and on February 25 proposed draft Rule G-44, that would develop the supervision rules over these professionals. The goal of the rule is to apply standards that municipal advisors have wri en policies and procedures in place for issues such as supervisory procedures, and chief compliance officer designation in their firm. There are also special details for small and single-person firms. ***While not directed at issuers, issuers should be aware of these forthcoming compliance standards for the professionals they hire***. The MSRB will be hosting a webinar on this issue March 20th.

MSRB Material on MA Professional Standards: The MSRB posted materials from its February webinar on proposed Rule G-42 which sets various professional standards for municipal advisors. ***The webinar covered issues related to an MA's fiduciary duty to an issuer, and other areas where the relationship between the municipal advisor and issuer may become different than they exist today,*** once the rules are finalized. A copy of the presentation may be found here and a list of the questions and answers discussed during the Q&A session may be found here. Meanwhile, on March 17, the MSRB was seeking public comments on certain professional qualification requirements for MAs.

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

NORTHEAST

On March 13th, **Citigroup Global Markets Inc.** priced $785 million of personal income tax bonds for **Dormitory Authority of the State of New York**; Aa2/AAA/AA; callable in 2/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.30	+17
2024	5.00	2.92	+38
2029	5.00	3.54	+24

Notes: Institutional demand, not retail, produced low yields.

MID-ATLANTIC

On March 12th, **RBC Capital Markets** priced $5 million of general obligation bonds for the **Wyomissing ASD, Pennsylvania;** NR/AA-/NR; callable at par in 8/1/2019:

Maturity	Coupon	Yield	+/- AAA 5%
2015	0.30	0.30	+12
2017	0.75	0.75	+31
2019	2.00	1.375	+27

Notes: This bank-qualified deal saw good demand with a short call.

MIDWEST

On March 12th, **Wells Fargo Securities** priced $394 million of general obligation bonds for **Chicago, Illinois**; Baa1/A+/A-; callable in 1/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2024	5.00	3.95	+146
2029	5.25	4.77	+152
2034	5.00	5.12	+143

Notes: Recently downgraded, the city found strong demand.

SOUTHEAST

On March 13th, **Raymond James & Associates** priced $12 million of general obligation bonds for the **St. Tammany Parish SD #12, Louisiana**; NR/AA/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.50	1.32	+22
2024	5.00	2.89	+39
2026	3.00	3.26	+45

Notes: The low coupon in 12-years was beneficial to the school.

SOUTHWEST

On March 12th, **Siebert, Brandford Shank & Co.** priced $695 million of combined utility system first lien revenue refunding bonds for the **City of Houston, Texas**; NR/AA/AA; callable in 5/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.76	+30
2024	5.00	2.97	+43
2028	5.00	3.38	+21

Notes: Houston GOs rallied in secondary markets.

FARWEST

On March 13th, **Piper Jaffray & Co.** priced $10 million of general obligation bonds for the **Solano Community College District, California**; Aa3/AA-/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2016	4.00	0.32	+22
2019	5.00	1.29	+19
2023	5.00	2.65	+35

Notes: The short maturities were well received.