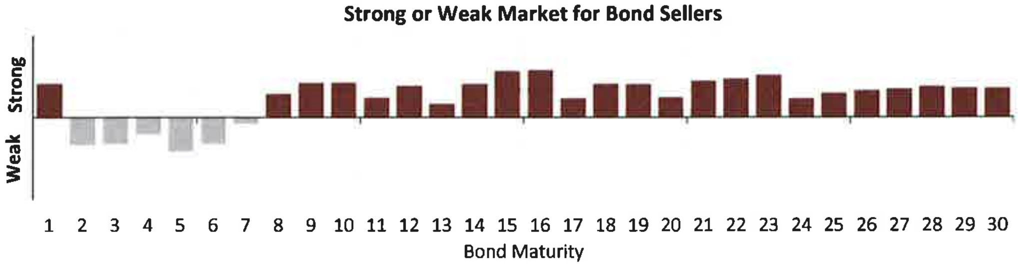
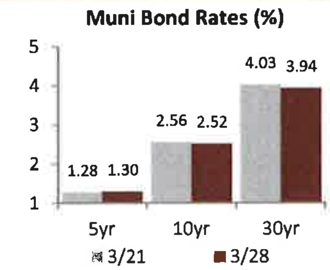
MMA The Power of Independence

MARCH 31, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, shorter maturity ranges continue to be weaker, a dynamic that began a week and a half ago when shorter bonds declined significantly. The strong dynamic continues though for bonds maturing in 8-years and longer.

MARKET UPDATE

THE MARKET IMPROVED INTO QUARTER-END: Momentum shifted in the middle of last week as a few large institutional money managers and large banks began to buy bonds aggressively in secondary markets.

INVESTORS & ISSUERS: The market is positioned well this week.

- **Issuance remains very light again.** Scarcity, or the lack of supply, was the overall driving factor for the first quarter of this year, which ends today.
- The scheduled amount of bonds to price this week is below $4 billion, **which is less than the weekly average issuance so far this year.**
- Last week, after starting with lingering weakness in the marketplace on Monday and Tuesday, **a few large money managers made a strong push into buying municipal bonds on Wednesday and Thursday.** This led to lower borrowing rates for issuers.
- **There are several higher education issuers in the market place** this week. These issuers in California, Texas and Connecticut (among others) **should do well in this market** as recent university deals have found strong demand.
- **Longer maturities performed the best last week** as it was here that large investors were most aggressive.
- High-grade issuers from Virginia and Anne Arundel County, Maryland sold competitively last week **and found strong dealer interest.**
- Issuers in the triple-B to single-A range can take advantage of current market conditions. **Many lower investment grade deals have done very well of late** (see **page 4** for details).
- **The larger New York issuers underperformed last week.** This is likely the result of significant issuance in the last 2 months.

SEC & DISCLOSURE: The ***Wall Street Journal*** published an article on Friday (click here to read) that highlighted the SEC's recent focus on municipal disclosure. The story noted that the regulator has open investigations into municipalities that may have misled investors. This is not surprising given the penalties the SEC has imposed on municipalities over the last 12 months. This is a positive for the industry as it should improve disclosure practices for those issuers that do not have high standards. It should also benefit issuers who keep their disclosure up to date as they are likely to be rewarded by investors. **See page 3 for more.**

BUYERS BITES:

WHAT IS TRENDING HOT:

1) Lower investment grade issuers
2) Illinois, California GO
3) Longer maturities
4)Competitive deals

CURRENTLY HARDER SELLS:

1) New York MTA, GO & Transitional Finance Authority

WHO IS REPORTEDLY BUYING:

Large banks, separately managed accounts, life insurance companies

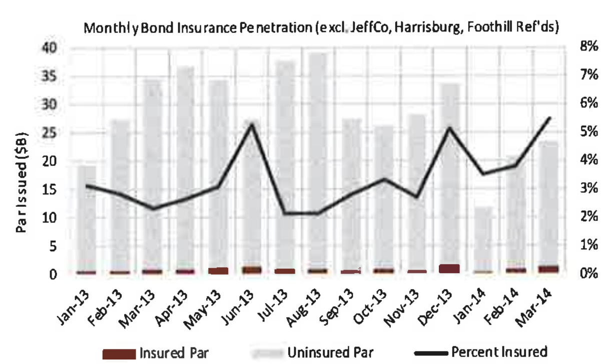


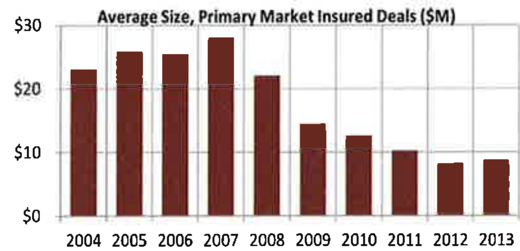
Figure 1: *This chart tracks the amount of new bond issues that carried insurance on a month-by-month basis since January last year. We removed 3 large, distressed deals (Jefferson County, AL, Harrisburg, PA & Foothills/Eastern Transportation Corridor) as they are outliers and not useful to examining possible future usage of insurance policies. Last year's insurance rate was 3.2% while so far in 2014 it is higher at 4.8%. Recent upgrades to two bond insurance providers is likely to result in a small increase in insurance use by municipal bond issuers. We review this topic on the next page's* ***Topic of the Week.***

TOPIC OF THE WEEK: BOND INSURANCE

BOND INSURERS GET AN UPGRADE: Earlier this month Standard & Poor's upgraded National Public Finance Guarantee (NPFG) to AA-minus (stable) and unexpectedly raised Assured Guaranty's insurer rating to AA (stable). The rating for NPFG should allow the company to begin insuring bonds for the first time in over 5 years. The upgrades occurred as the two companies continued to resolve their exposure to financial products that failed during the 2008 financial crisis; but also in part to the rating agency's more positive outlook on the municipal market as a whole. S&P has upgraded 1,200 municipal credits in the last 6 months alone. Insurance use should rise as a result. **MMA** projects that in 2014 about 5% of all municipal bond deals will use insurance, up from 3.2% last year. This is also a positive development for Build America Mutual, the third insurance provider even though it was not upgraded.

State Concentration In Insured Issuance (excl. JeffCo/Hburg & Foothill Refinancings)		
	2013	2014 YTD
CA	24%	26%
TX	15%	18%
PA	15%	14%
NY	11%	14%
IL	5%	9%
Top 5 % of Total	70%	80%

WHAT THIS MEANS FOR YOU: First, if an issuer has outstanding insured bonds by Assured, they should provide additional disclosure of the upgrade to the MSRB for their investors. The upgrades imply that bond insurance ratings may have seen their bottom, and with time, could eventually re-attain the triple-A ratings of pre-crisis. This could mean that issuers can insure their bond deals more often, and in theory, at a lower costs if this industry grows. **MMA** has noted that newly insured bonds are highly concentrated in 5 states (see **table to the right**). CA, TX, PA, NY and IL together account for 80% of year-to-date insurance. If the companies are to increase their business it would seem reasonable to expand their business beyond these states. Issuers of deals $10 million or smaller should take particular note of the insurance industry as it is in this size where insurance is most commonly used. In fact, the average deal size carrying insurance in 2012 and 2013 was less than $10 million (see **chart to the right**). Understanding the type of buyer you have for your deals is key to whether or not you should pay for insurance. Since downgrades of all bond insurers in 2008 and 2009 many institutional investors have demonstrated less demand for insurance; and have preferred the higher yield of the non-insured bonds and have bolstered their internal credit review process. Also, many individual owners have found the insurance company chaos confusing and have sought professional management. Smaller banks that buy municipal bonds are more likely to welcome the added security of insurance since they lack the internal resources to review a larger number of credits in their portfolio. Many issuers will likely review the new opportunities to insure their bond deals, as insurance may result in lower yields as a result of improve distribution and higher credit quality via the insurance company rating. A broader discussion of the risks and benefits of insurance can be found via the October 2013 **Topic of the Week** located here.



INDUSTRY ROUND-UP

NEW RETAIL ORDER PERIOD IN PLACE: Beginning today, March 31, new Municipal Securities Rulemaking Board (MSRB) rules go into effect to make certain that dealers properly execute an issuer's requirements for its retail order period. The rules now mandate that when there is a retail order period, the manager or senior manager must provide various statements in writing to all syndicate and selling group members to ensure the issuer's requirements are being completed. These rules were updated to help ensure that the governments' policies related to a retail order period are actually executed in practice, as there had been some indications in the past that they were not. The updated rulemaking also makes it easier for FINRA to audit the orders, as new recordkeeping requirements have been placed on senior managers and underwriters that would document any problems.

OFFICIALS: ISSUE PRICE REG CHANGES WILL HAPPEN: At the National Association of Bond Lawyer's (NABL) conference last week in Boston, several officials said that proposed IRS issue price rules would likely be altered even though IRS and Treasury officials have received numerous comment letters opposing the proposed rules. IRS and Treasury officials said that they are reviewing all of the comments they received related to the proposed rulemaking and are trying to determine whether to update existing regulations that base the issue price on the reasonable expectation of sales test, or to move forward with using actuals sales as a base for the issue price. Officials also acknowledged that, unlike the proposed regulations that treated all sales the same, there may need to be separate rules for competitive and negotiated sales. (SEE September 2013 MIB for more info).

SEC ENFORCEMENT OFFICE TALKS NEW SELF-REPORTING: Also at the NABL conference, the chief of the SEC's Enforcement Division, LeeAnn Ghazil, explained the new program announced by the SEC on March 10 that encouraged market participants, including issuers, to self report securities law violations. Ghazil commented on the problems that have arisen when an issuer has failed to provide its annual disclosure information, stating that if an issuer fails to file and instead self reports, they are more likely to be charged with negligence rather than securities fraud.

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

NORTHEAST

On March 25th, **Barclays Capital** priced $488 million of water & sewer system revenue bonds for the **New York City Municipal Water Finance Authority**; Aa2/AA+/AA+; callable in 6/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2022	5.00	2.55	+34
2024	5.00	2.90	+32
2039	5.00	4.14	+18

Notes: The issuer saw stronger demand on bonds inside 10 years

MID-ATLANTIC

On March 27th, **Virginia** sold $128 million of general obligation bonds to **JPMorgan Securities Inc.**; Aaa/AAA/AAA; callable in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.30	-2
2024	5.00	2.48	-8
2034	4.00	4.50	-17

Notes: This deal was bid well through MMA 5% AAA Benchmark

MIDWEST

On March 26th, **BMO Capital Markets** priced $11.75 million of certificates of participation for **Northern Illinois University Board of Trustees**; A3/AA/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	4.00	0.65	+45
2019	4.00	2.40	+106
2024	5.00	3.78	+119

Notes: Proximity to Chicago did not create hurdles for this issuer

SOUTHEAST

On March 25th, **Siebert Brandford Shank & Co.** priced $825 million of airport passenger facility charge and subordinate lien general revenue bonds for **Atlanta, Georgia**; Aa3/A+/A+; callable in 1/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.57	+27
2024	5.00	3.03	+45
2029	5.00	3.67	+30

Notes: Lower-rated airports continue to find strong interest

SOUTHWEST

On March 26th, **First Southwest Securities** priced $8 million of general obligation bonds for the **Brazoria County MUD #6, Texas**; NR/A/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.50	+30
2019	2.50	1.83	+49
2024	3.50	3.00	+41

Notes: BQ and Assured insurance benefited the issuer here

FARWEST

On March 26th, **Morgan Stanley & Co. LLC** priced $791 million of Department of Corrections & rehabilitation lease revenue bonds for **California State Public Works Board**; A2/A-/A-; callable 9/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.82	+49
2024	5.00	3.21	+65
2029	5.00	3.81	+54

Notes: Mid-investment grade deals continue to find strong demand