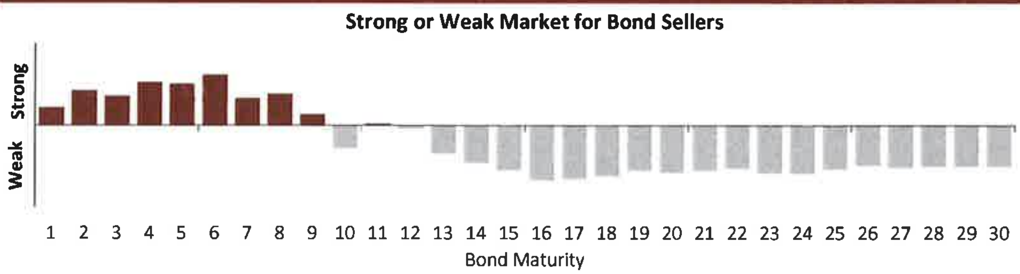
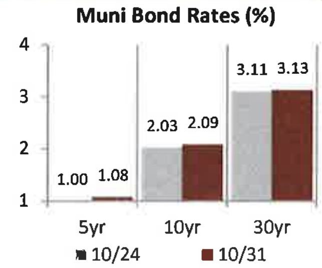
MUNICIPAL ISSUER BRIEF





Heading into this week, the losses throughout last week have put bonds 10-years and longer into a more challenging context for issuers coming to market this week. Note that shorter maturities continue to see a stronger dynamic as it is here where investors have focused to stay defensive in a presumably rising-rate environment.

MARKET UPDATE

MUNICIPALS HAVE SECOND STRAIGHT WEEK OF LOSSES: Pressured by losses in other bond markets and as many individuals shunned low yields, the tax-exempt space lost ground again last week and equaled the longest span of consecutive losses this year.

INVESTORS & ISSUERS: Traditional investors were not as engaged:

- Municipal interest rates **continued to move higher last week** (***Figure 1***) as the Federal Reserve announced it was ending its latest round of bond purchases, but also as a rallying stock market had many traditional investors focused on equities over municipals (***Figure 2,* page 3**).
- As interest rates moved higher, many dealers were pressured to move new-deals quickly. As a result, **initial yields came attractive** to recent trading for many series. This is why many deals were re-priced to lower yields despite the broader challenges.
- The largest deal last week, more than $1 billion bonds to finance the World Trade Center in New York, was re-priced to much lower yields and in the secondary markets traded as much as 100 basis points better—**a feat that rarely occurs.**
- This week features a more traditional bond financing calendar with several large states and counties selling general obligation or essential revenue debt. **Keep an eye on the slate of high-grade competitive deals beginning** Tuesday that will help decide the tone for the week.
- One component that may start to affect the market is that many participants see their fiscal year end in November—and many may look to slow down operations to lock in what has been a strong year (***Figure 3 page 3***). If this happens it could hurt price discovery and **impede continued generally positive conditions for issuers.**
- Several insurance companies and 2 large funds sold their investments into the secondary market. If this continues this week **it could continue to challenge the marketplace (*Figure 4 page 3*).**

BUYERS BITES:

WHAT IS TRENDING HOT:

1) World Trade Center project bonds
2) Very short maturities
3) Step-coupon structures

CURRENTLY HARDER SELLS:

1) 4% coupon or lower underperforming
2) Longer California GOs underperforming

WHO IS REPORTEDLY BUYING:

Large and regional banks, dealer proprietary trading desks, SMAs

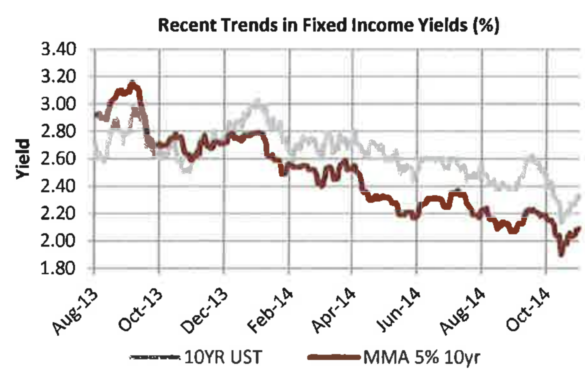


Figure 1**: Above the maroon line tracks the tax-exempt AAA 10-year yield with a 5% coupon while the grey line tracks the US Treasury 10-year yield since last Summer. Note yields have generally fallen throughout 2014 but they have spiked sharply over the last two weeks. The correlation between the two lines has been more consistent in recent months.* ***Issuers coming to market soon should familiarize themselves with recent factors influencing Treasury yields as they are also affecting municipal borrowing rates.

STOCKTON, BANKRUPTCY & CalPERS: The U.S. Bankruptcy judge in Stockton, California's bankruptcy case last week approved the city's plan to exit bankruptcy without impairing pensions. California Treasurer Lockyer commented after that he expected local government access to Chapter 9 would have been met with legislative changes if federal bankruptcy law was thought to permit California pensions to be impaired in bankruptcy. For more on pensions' political effects on local governments, see 10/20 MIB.

MMA The Power of Independence

TOPIC OF THE WEEK: MIDTERM ELECTIONS

MIDTERM ELECTIONS PROBABLY MEAN MORE HEADLINE RISK FOR MUNICIPALS: Tomorrow is election day! It appears that consensus opinion regarding the Federal midterm elections is that Republicans are likely to win control of the Senate and thus both Houses of Congress. Remember that the municipal market has been a key beneficiary of recent Congressional gridlock: the inability of anyone to do anything has helped the exemption survive unscathed, even with both parties and the administration creating tax reform or program funding ideas that directly impinged on the tax-exemption. That municipal bonds' exemption has survived despite the lack of any clear pro-exemption champion in Congress (after Barney Frank) is doubly remarkable.

WHAT IT MEANS FOR YOU*:* Assuming a Republican-controlled Congress:

Negatives: Republicans owning the Senate and House implies a greater risk that the GOP will at least discuss and/or configure a comprehensive tax reform plan that eliminates or dilutes the tax-exemption. In fact, several key members have already begun discussions about tax reform and **MMA** expects the topic will begin to advance soon after the new Congress is seated. This may well generate negative headlines for the exemption, unnerving retail and crossover investors, and raise state and local issuers' cost of capital in early 2015. However, the prospects are still quite poor for actually adopting comprehensive, individual tax reform. There is a noted lack of sponsorship in Congress for the tax expenditure reductions needed to lower marginal rates, and look for Senate Democrats to be disruptive wherever possible.

Positives: If Republicans are able to win the Senate, the prospects for any tax-credit or similar exemption-replacement programs will dim accordingly. Besides if its cost to Treasury, Republicans' principal quibble with the exemption has been the easy access to capital it provides even to poorly run states and locals. There has been little Republican support for BABs or similar Democratic efforts to replace the exemption for purposes of better Federal control/efficiency in the past.

Wildcard: Noting that the next Congress will be the last for the Obama Administration, we expect that the President will be far more willing to work with Congress (to get something done for a change) even if the ideological divide grows. Thus, if the President faces a uniformly Republican Congress, we warn against relying too strongly on his partisan discipline alone to restrain passage of Republican-led legislation.

CHARTS

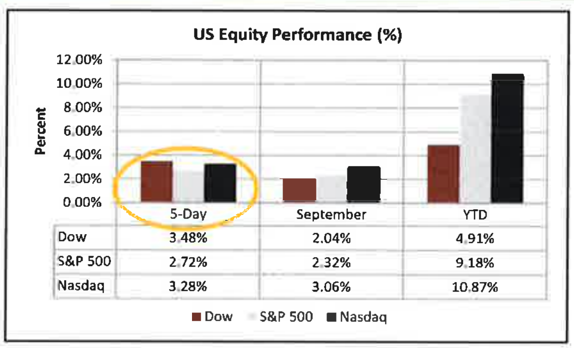


Figure 2: *Last week saw a very big rally in stocks that aided investors lack of attention to municipals.*

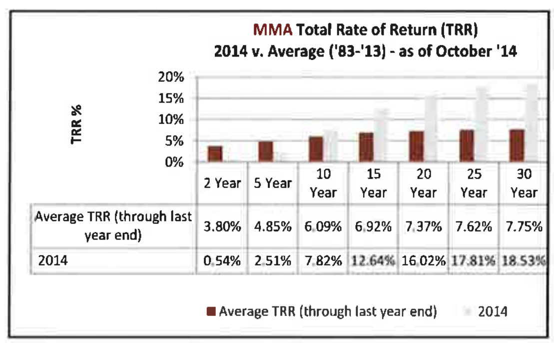


Figure 3: *Total rate of return for investors has been exceptional this year. Participants may slow down as fiscal year's end.*

Secondary Selling - Daily Average		
Period	BW Par ($M's)	Offering Par ($M's)
Since June, 2008	$556	$11,458
60-day	$476	$12,934
20-day	$609	$13,417
5-day	$498	$13,751

Figure 4: *Increased selling pressure can take away from deals coming to market.*

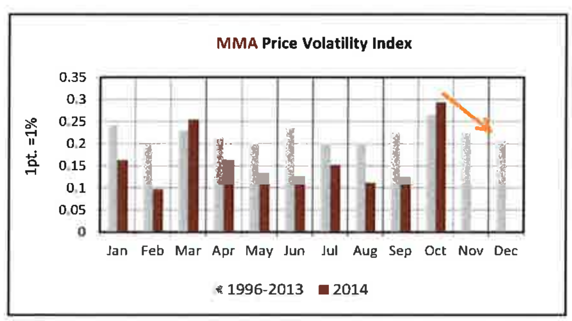


Figure 5: *After volatile October the rest of the year may be different if the historical norms prevailed—a positive for issuers*

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

NORTHEAST

10/28: **Goldman, Sachs & Co.** priced $1.358 billion of 3 World Trade Center Project revenue bonds for the **New York Liberty Development Corporation**; NR/NR/NR; callable in 11/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2034	5.15	5.15	+228
2040	5.375	5.375	+231.5
2044	5.00	5.00	+191

Notes: Deal saw ample demand & traded 100 bps better in Street

MID-ATLANTIC

10/28: **Morgan Stanley & Co. LLC** priced $214 million Wellspan Health Obligation Group revenue bonds for the **General Authority of South Central Pennsylvania**; Aa3/NR/AA-; callable in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.44	+46
2024	5.00	2.67	+53
2044	5.00	3.70	+61

Notes: Investment grade healthcare has done very well this year

MIDWEST

10/28: **Bank of America Merrill Lynch** priced $124 million power supply system revenue bonds for the **Oklahoma Municipal Power Authority;** NR/A/A; callable in 1/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.26	+26
2024	3.00	2.50	+46
2038	5.00	3.41	+41

Notes: These are tight spreads for a single-A issuer

SOUTHEAST

10/30: **Goldman, Sachs & Co.** priced $100 million special revenue and refunding bonds for **Jacksonville, Florida**; Aa3/AA-/AA-; callable in 10/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.30	+25
2024	5.00	2.55	+47
2034	5.00	3.33	+44

Notes: This deal faced pressure and re-priced to higher yields

SOUTHWEST

10/30: **Morgan Stanley & Co.** priced $345 million water quality revenue refunding bonds for the **Water Infrastructure Finance Authority of Arizona**; Aaa/AAA/AAA; callable in 10/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.18	+13
2024	5.00	2.17	+9
2029	5.00	2.56	0

Notes: The Authority was not affected by a difficult trading day

FARWEST

10/29: **Wells Fargo Securities** priced $177 million municipal light and power senior electric revenue refunding bonds for **Anchorage, Alaska**; NR/A+/A+; callable in 12/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.47	+47
2024	5.00	2.54	+50
2034	5.00	3.28	+41

Notes: Issuer had to make minor yield adjustments before closing