

National Federation of Municipal Analysts

A COMMENT ON THE CURRENT MARKET DIALOGUE REGARDING CREDITWORTHINESS OF MUNICIPAL BONDS



Established in 1983, the National Federation of Municipal Analysts (NFMA) is a not-for-profit association of over 1,000 members, primarily research analysts, who evaluate credit and other associated risks in the municipal market. Our members represent, among others, mutual funds, insurance companies, broker/dealers, bond insurers, rating agencies, and financial advisory firms.

The NFMA was established with the goals of promoting professionalism in municipal credit analysis and furthering the skill level of our members. We do this through educational programs and industry communication, providing an informed perspective on legal and regulatory matters relating to the municipal finance industry, and by facilitating the flow of information between investors and issuing entities. We are also called upon from time to time by industry associations and regulatory agencies to offer our opinion on various matters that affect the municipal bond market.

Since the onset of the last recession in December 2007, there has been much concern and speculation in the media regarding the recession's possible effect on the creditworthiness of municipal bonds. That speculation has increased as lingering effects of the recession have continued to have a negative impact on revenues of state and local governments.

There is no doubt that many issuers of municipal bonds are facing budget and funding challenges that are unprecedented in the postwar era, but we caution against treating the universe of state and local debt obligations as uniformly troubled or treating the municipal market as a homogenous sector. Broad statements about the entire municipal market are difficult to support, as it is made up of many different sectors, each of which has different credit drivers.

Some states are facing daunting budget problems while the challenges facing other states are more manageable. The same can be said for cities, counties and school districts throughout the US. Even for those issuers who have serious financial problems, it is difficult to predict that any given issuer will or will not default. This is especially so given the political and legislative hurdles presented when an issuer considers default.

This is not to ignore the severity of the problems facing various state and local governments but only to note that it is through diligent analysis of each issuer's credit strengths and weaknesses, as well as locally pertinent legislative requirements, that supportable comments about defaults can be made.

We also note that many recent predictions about the municipal market have been focused on general government debt without differentiating it from other sectors in the market such as private higher education, hospitals, water and sewer systems, and other types of municipal enterprises which generate their own revenues for debt repayment and are not reliant on tax revenues. While there are specific challenges that confront each of these sectors, the revenue-

generating nature of these enterprises, and their lack of reliance on taxes, is a clear indication that the "municipal market" cannot be described by overly broad statements.

Although the NFMA was formed 28 years ago, municipal analysis as a profession has been around far longer. A constituent society of the NFMA, the Municipal Analysts Group of New York, was established in 1949. Collectively, the municipal analysts in our group possess a wealth of knowledge and historical context of the municipal market and its widely varying types of issuers, structures and securities. Our members, who are employed by trust departments, insurance companies, rating agencies, broker/dealers, and firms that represent retail and institutional investors, provide a unique perspective on the municipal market.

The NFMA as an organization does not take a position regarding the creditworthiness of specific municipal bonds or the strength of our market in general. With more than 1,000 analysts in our membership, we often have a broad diversity of opinion on such matters.

As noted above, the NFMA has two main goals: promoting professionalism in municipal credit analysis and furthering the skill level of our members. In furtherance of these goals, the NFMA and its constituent societies hold numerous conferences over the course of each year, many of which are open to the public. We encourage the press and members of the concerned public to reach out to NFMA members – either directly or through their employers – to gain a better understanding of challenges facing the municipal marketplace today.

For more information on this and other NFMA initiatives, please contact: Lisa Good, Executive Director, NFMA, at 412-341-4898, or lgood@nfma.org. Additional information is also available on our website, www.nfma.org.