

Municipal Bonds and the Credit Crisis

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Regional Bond Dealers Association

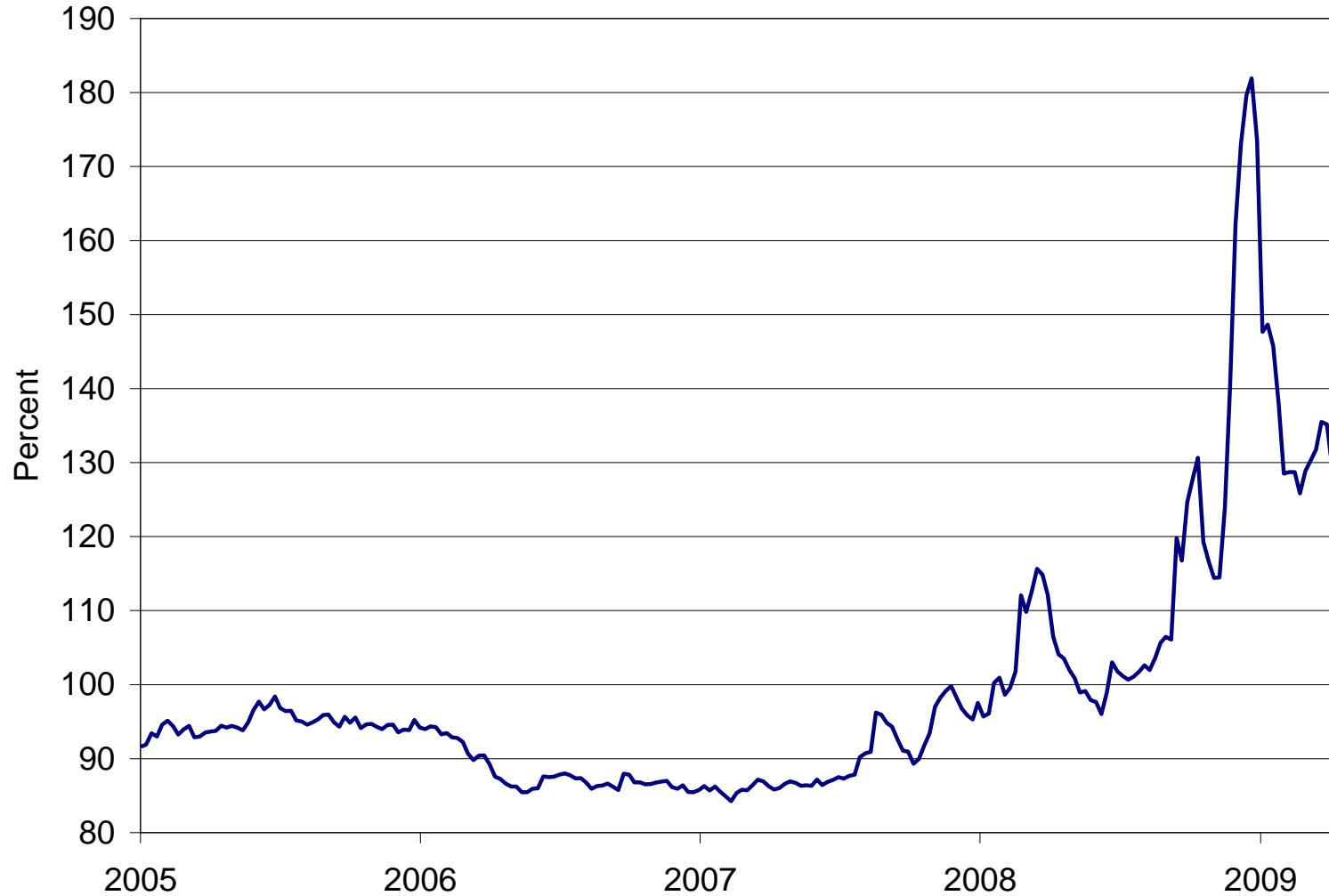
- Formed one year ago
- 29 member firms
- Most are active in the municipal market
- Primary mission is advocacy
- Focus on tax-exempt and taxable products

Muni Bonds and the Credit Crisis

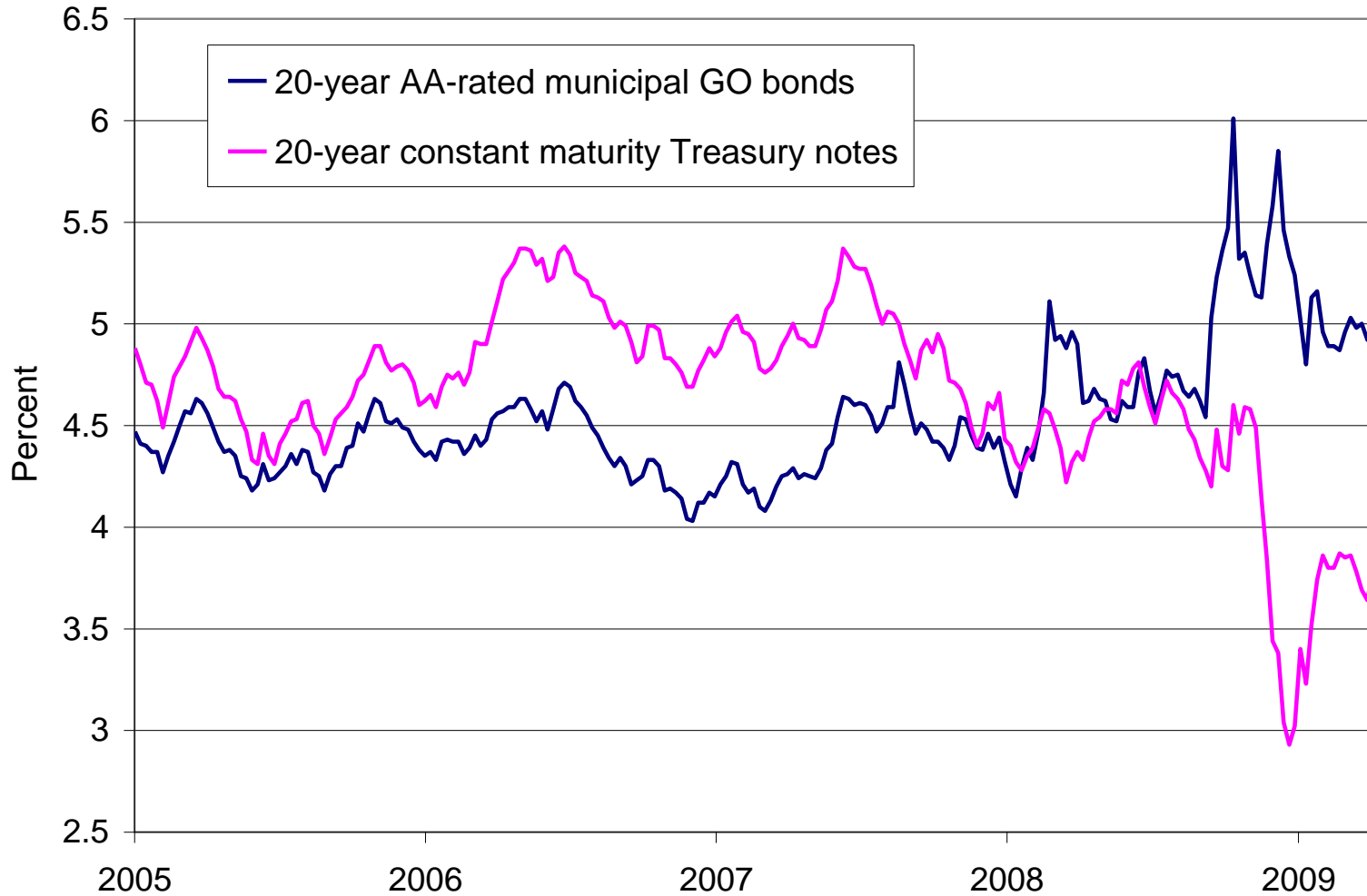
- Deleveraging: Hedge funds, TOBs, broker-dealers
- Flight to quality
- Loss of bond insurers
- Economic downturn and municipal bond credit quality
- Risk aversion

Municipal Yield Ratio

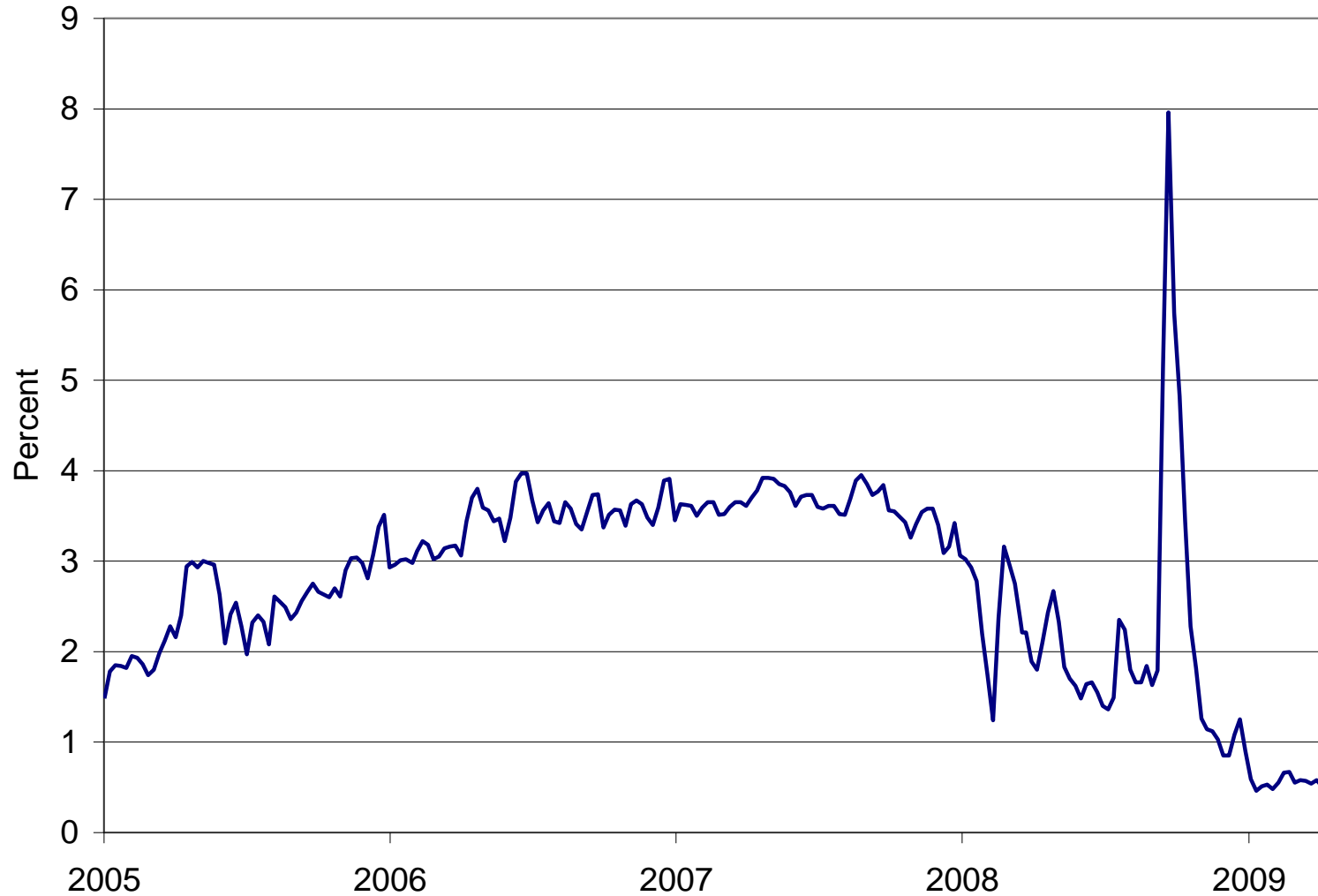
20-year AA-rated Municipal Bond Yields to 20-year Constant Maturity Treasury Yields



Treasury and Municipal Bond Yields



SIFMA VDRN Index



The Credit Crisis and Municipal Bond Product Sectors

- Auction rate securities
 - No longer a financing option
 - Penalty rates
- Variable rate demand notes (VRDNs)
 - Loss of liquidity providers
 - Money market fund redemptions
- Long-term bonds
 - Higher financing rates, especially for single-A and triple-B borrowers

Policy Solutions: Stimulus Legislation

- Spark new institutional demand
 - Bring banks back to the market
 - Expand small issuer bank exemption
 - Two-percent *de minimis* rule for banks
 - Apply BQ test to borrowers, not issuers
- Spark new retail demand
 - Eliminate AMT application to municipals
- Build America Bonds
 - Two-year window for cash subsidy
- Other provisions
 - Economic development, tax credit bonds, etc.

Policy Solutions: Next Steps

- Assistance for VRDN issuers
 - A federal agency would provide liquidity facilities for VRDNs.
 - Federal government would collect LOC fees.
 - Could operate directly or through existing LOC banks.
- Federal guarantees
 - Would apply to GOs only.
 - Nominal guarantee fee at first.

Policy Solutions: Next Steps

- Reinsurance program
 - Would provide reinsurance to existing or newly formed monolines.
 - Federal government would collect reinsurance fees.
- Regulation of financial advisors
- Mandate global scale ratings for municipal bonds