Moody's Plans to Re-Calibrate Public Finance Ratings to It's Global Scale

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Moody's Investors Service

Overview of the Plan

- Re-calibration of all outstanding public finance credits
  - @20,000 distinct issuer security pledges, 70,000 actual sales and over one million of cusips
- Transition to begin early October and to be completed in phases
- Expected to be concluded in January 2009
- All public finance sectors to be recalibrated
- Result will be direct comparability of municipal ratings with ratings of sovereign, sub-sovereign, structured, corporate and financial institution credits

Re-calibration will Accomplished in Phases

- Beginning with state government ratings
- Quickly followed by largest local government debt issuers
- Higher education and non-for-profit institutions
- Health Care
- Housing
- Infrastructure
- Local Government GOs, Local Government Water and Sewer, then Sales/Special Tax and other remaining credits

Re-calibration Will Provide Comparability With Ratings in Other Sectors

- Global scale ratings at Moody's are intended to rank order issuers by relative risk of default and likely loss in the event of default as indicated by:
  - An issuer's intrinsic financial strength
  - potential sources of external financial support
  - vulnerability to event and transition risk
  - the quality of financial management
  - the quality of information disclosures
  - and the historical default and loss experience of similar issuers.

Process for Re-calibration

- Benchmark and re-calibration of representative municipal credits to the global scale
- Rating committees will be comprised of municipal and non-municipal analysts from our corporate, sovereign, sub-sovereign and project finance teams
- Placement of the states and largest local governments will anchor municipal ratings to the global scale and serve as a point of reference around which other municipal ratings will be placed
- Enterprise credits will be calibrated against other non-PFG credits and consider placement of the government credits on the global scale

Expected Results from Re-calibration

- Expected average rating movement is +2 notches for GO debt.
- Issues that are rated based on a relationship to the GO rating will be addressed considering the placement of the GO. (appropriation and moral ob)
- Additional attention to attributes of global Aaa and

  Baa3 credits will be reviewed in to ensure appropriate placement.
- Expected average rating movement is +1 notch across public enterprise sectors.
- Ratings at the upper end of the muni scale will receive less lift.

Expected Results from Re-calibration

- Current Housing & many Health Care ratings are expected to be deemed to be well-aligned with other global scale ratings due to minimal expected public support and higher expected losses upon default
- Impact of migration on Higher Education & Infrastructure ratings will vary by sub-sector and be dependent on the level of public support

Municipal Bonds Have Been Calibrated on a Different Scale Since the Early 1900's

- This scale has historically been well understood by the market
- In the late 1990's a number of "cross-over" investors became more active in the municipal market
- In 2001 Moody's began investigating whether the potential benefits of a re-calibrated US municipal scale to the global scale had increased
- Continuous market surveys supported the maintenance of the municipal scale

What Has Changed?

- Recent market events and a shift in market sentiment have prompted a reconsideration of the use of a differently calibrated rating scale for municipals

- Spring of 2008 Moody's proposed re-calibration of the municipal scale to the global scale for municipals

- Market survey conducted to determine how best to meet the needs of the market and feedback was generally consistent:
  - current market conditions have resulted in a greater need for rating comparability between muni and non-muni securities;
  - a single scale is preferable to a dual scale system; and
  - transitioning municipal ratings to the global scale would provide useful information.

What Has Changed?

- Close to 200 participants provided feedback (92 issuers, 53 intermediaries plus 41 institutional investors representing 60% of the total debt outstanding excluding debt held by retail investors