California Debt and Investment Advisory Commission

Webinar
Market Update: The Future of Credit Enhancement
March 6, 2013

Introductions- Mark Campbell, Executive Director, CDIAC

Slide 1-Market Update: The Future of Credit Enhancement

Mark>>: Hi. This is Mark Campbell, executive director with CDIAC. I want to welcome you all to our webinar, Market Update: The Future of Credit Enhancement. The webinar runs today from 10:00 a.m. until 11:30. We have got a panel of speakers. We are looking forward to this presentation.

Slide 2: Market Update: The Future of Credit Enhancement (Mark Campbell, CDIAC)

I have a small role here. I want to cover a couple of administrative issues. First of all, we do offer captioning. And there is a link on this page that should be on your screen now. So if you need captioning service, please just click on that. We're also going accepted that out to you directly with the link so you can access that later on in the webinar if you need to.

The next thing, I want to make sure that everyone knows that there is an opportunity to send questions or comments. And there is a panel on the right-hand side of your screen that you can access and submit questions directly to our presenters throughout the webinar.

Lastly, should you require a certificate of attendance, e-mail us and we'll get that out to you.

I'm going to turn it over quickly here to our panel. It will be facilitated by Dave Johnson, managing director for Wells Fargo Securities. Mr. Johnson has been a public finance investment banker for over 25 years, serving state, local, and not for profit clients. As a banker he served in the capacity of lead manager for many of the largest issuers in the State of California, including the state, counties of Los Angeles, San Francisco, and Santa Barbara, and the Los Angeles and San Diego Unified School Districts. Prior to joining Wells Fargo Securities, he worked at Bank of America for 18 years and served as manager for that firm's west coast public finance practice. Dave, to you.

David Johnson, Managing Director, Wells Fargo Securities

Moderator

Slide 4: Webinar Outline (David Johnson)

>>: Thank you. CDIAC has developed this webinar for California State and local issuers as a resource to inform you generally about the changed and evolving landscape of credit enhancement in the municipal market. We have assembled a panel to address the current market viewpoints from two providers of credit enhancement a bond insurer and a bank that currently are active in the market. They will be

discussing trends, new products and regulations that directly or indirectly are affecting the costs and available of credit enhance mental. We will also hear the viewpoints of a major institutional investor and a rating agency that play as pivotal role in the enhanced credit securities market.

Slide 5: Credit Ratings Spreads Compress (David Johnson)

Bond insurance is typically associated with long term bonds. As everyone knows, there was a major financial shock in 2008 with a credit spread of an A-A-A security, of a A-A-A security, if you could find one, reached its highest point at 260 basis points in 2009. The current spread is compressed to about 125 basis points between a A-A-A security and the lowest investment grade widen:

Slide 7: Value of Bond Insurance Declines (David Johnson)

On this slide, the yield curves for various credit ratings of investment grade bonds are dis-employed. Two points-- Insured bond yields are naturally higher than rated A-A municipal bonds. And the differential between A rated and insured municipal bonds as shown in the red oval area are currently very narrow. In most cases, a five to ten basis point range. I note, however, that these are generic curves published by Thompson municipal market monitor and that spread relationship can actually vary on an individual basis and can be as high as 15 to 20 basis points between a natural A rated and a bond insured. The other thing to note is there are not any triple A bond insurers remaining active in the market.

Slide 8: Rise and Fall of Municipal Bonds Insurance (David Johnson)

On the next slide, this shows the historical volume of municipal bond insured long term transactions. You can see there has been a dramatic decline even in from 2011 to 2012 as represented by that darkest blue. It has hit its lowest level. However, as one of our speakers, we do have a new entrant into the municipal bond insurance market that is Build America Mutual. And they will be discussing bond insurance in general and their particular product approach.

Slide: 9 Variable Rate Product Mix and Volume Changes (David Johnson)

On the next slide, the other side of the spectrum, where credit enhancement is utilized is in the short-term market. Typically, but not exclusively, this is applied to variable rate demand bonds. There are other variations which are our bank provider will be describing. But you can see, after 2007, with the virtual elimination of the auction rate securities market, VDRB had a tremendous spike in 2008 as issuers exited the auction rate securities market. But from 2008 on-ward you can see there has been a very steady decline in VRDO issuance. Tim Self will be going over the causes and reasons for that.

Slide 10: New Issue LOC Use Continues to Decline (David Johnson)

On the next slide you will see the historical LOC issuance. The historical low was in 2008 in California.

Slide 11: Market Update The Future of Credit Enhancement (David Johnson)

I'd like to now introduce the speakers on our panel. Our first will be Tim Self, a managing director at J-P Morgan securities. Tim joined the public finance credit origination group of JPMorgan in August of 2007 as the senior credit banker covering clients in the western United States. In 2008, Tim was appointed head of the public finance credit origination and portfolio management group. His group consists of 14 New York based bankers and currently provides approximately $28 billion of credit facilities to over 200 of the country's largest issuers. Prior to joining JPMorgan, Tim worked for Lloyd's banking group for 17 years.

Presenting about the bond insurer viewpoint, we have Suzanne Finnegan, the chief underwriting officer for Build America Mutual. She has the responsibility for underwriting approval of all transactions or insurance at Build America Mutual. Prior to joining BAM, she was at Wells Fargo Bank N-A, where she was our senior credit officer, overseeing credit in the government banking sector. And from 1990 to 2040, she was the chief of municipal underwriting officer as FSA, a bond insurer responsible for the municipal finance underwriting.

To give us the perspective from an institutional investor, we have Ron Mintz, the senior municipal credit analyst from the Vanguard Group. Vanguard Group is based in Valley Forge, Pennsylvania and is one of the world's largest investment management companies, managing more than $2 trillion of U.S. mutual fund assets. Within the municipal securities arena, Vanguard is the largest manager in the world and manages 20 money market and bond funds for a combined principal am of $128 billion. Ron has been a participant in our municipal bond industry for more than 20 years. He started as an associate at an investment banking firm before moving to San Francisco. So he has a lot of experience in California. He is an active in industry affairs as a California society municipal analyst in the national federation of municipal analysts.

And rounding out the panel we have Joann Hempel from Moody's Investor Service. Joann is a vice president in that group. She has been at Moody's for 15 years, is the point person for variable rate including soft liquidity [inaudible] products. [inaudible].

So we are going to have each of these presenters provide a short presentation. Between each presentation, we will stop and if you have submitted questions on line we will address them. And I will probably have a couple of questions for each of the panels throughout. We will stop for questions between each presentation and leave approximately ten minutes at the end of the presentation to address other questions. So with that, I'd like to turn it over to your two providers of credit enhancement, Suzanne and Tim. I think Tim will begin.

Slide 12: Overview of Credit Origination and Bank Market Upate

Tim Self, Managing Director, JPMorgan

>>: Yes. Hello, everyone. I'll just give an overview of the current state of the bank credit enhancement market. I'll touch on an overview of various credit products available in the market currently. And then also speak a little bit about Basel III and how the new banking regulations proposed by Basel III are impacting on the bank market and the bank's desire to extend credit to municipal issuers.

Slide 14: Current Conditions in Bank Market (Tim Self)

So turning to page 14 of the presentation, I think in terms of overall current conditions in the bank market there is a number, I guess, of overlapping factors that are impacting on both issuers and banks at the moment. From an issuer perspective, we're seeing issuers focusing on trying to make sure their balance sheets are as strong as possible. We have certainly seen a number of issuers reducing their reliance on the credit markets by timing out debt in what David has mentioned is a very interest rate friendly environment. Despite the fact that the spread differential between SIFMA, the shortened of the curve, and long term picked rate are fairly close to historic highs, the all in rates for issuers in terms of issuing long term picked rate debt are fairly compelling. So one thing we are not seeing at the moment are new variable rates at issuance, although that may change when we move into a steeper yield curve environment with rates going up on the longer end.

I think as well, issuers are continuing to focus on diversifying their credit bank exposures. We certainly saw pre-crisis a lot of issuers having all they credit provided by, you know, either one or two banks. You know, clearly, when those banks ran into financial difficulties in the crisis, that was problematic for those issuers. I think issuers are much more focused on [inaudible] risk in terms of bank. And I think also banks are focused on [inaudible] risk in terms of ensuring they don't have too much credit risk in terms of specific issuers.

In terms of the overall dynamic when -- replacement facilities we are seeing most of the demand at the moment for bank credit being driven by renewals of existing very facilities and replacements of weaker banks that are no longer in the market. So we've seen a lot of the weaker European players fallen out of the market. And that capacity is largely being taken up by a number of the large U.S. banks. You know, JPMorgan, Wells Fargo, U.S. Bank. And also some other foreign players flowing into the market, primarily the Japanese banks, they are starting to flow back in.

So in terms of the remainder of 2013 and 2014 there is a substantial of renewal credit [inaudible] come up. Roughly $69.2 billion are up for renewal in 2013. $65 billion facilities up for renewal in 2014. And we are seeing banks being typically constrained in some way as well. I think banks are paying more attention to issues such as geographic concentrations, certain issuer concentrations, and also a lot of banks have expectations for other ancillary business. So banks I think are still being relatively selective in terms of how they are deploying their credit capacity across their issue of clients. And also, banks are focusing on the changing regulation environment. There is a number of thing impacting on banks' overall credit appetite at the moment.

The most important thing from an issuer perspective though, is that there are certainly sufficient bank credit appetites out there for issuers to be able to renew their facilities. And you know, we are certainly seeing much more competition in terms of banks stepping up as credit providers than we saw, you know, 18 months, two years ago. So where issuers need liquidity either to support new issuance or to replace other impaired providers is typically good for all the bank and they are interested in stepping up that picture does change a little bit as you move down the credit curve. But overall I think it is a relatively healthy supply demand dynamic across the market at weren't present, which certainly wasn't the case during the crisis.

Slide 16: Two Primary Forms of Facilities Providing Liquidity (Tim Self)

Just turning on to page 16 in terms of a high level overview of the main types of credit enhancement that are available, effectively, the market is bifurcated into two primary forms of support. Firstly, there are letters of credit. And a letter of credit effectively provides credit enhancement and liquidity support for. So both the credit and liquidity are embedded in the same instrument. Under this structure, the bank is effectively on the hook and must pay bond holders no matter what happens to the underlying issuer. So if there is a bankruptcy of the issuer, downgrade of the issuer, below investment grade or default, the bank is effectively on the hook and investors are looking to the bank as the primary source of credit.

In terms of this market, the forms that banks support without letters of credit -- with our letters of credit carry the bank's short-term and long term ratings. The bank's annual fee for providing a letter of credit will be based largely on the issuers' underlying rating how much credit risk the bank perceives with the underlying issuer, what the letter of maturity is, how large the credit call is. Typically, letters of credit are utilized by issuers in the A plus category or lower. But we are seeing more issuers rated in the A-A category purchasing L-Cs rather than liquidity, and I think that's largely driven by a convergence in the price of liquidity facilities and letters of credit. So traditionally, the pricing differential between those two instruments used to be fairly significant. That differential has narrowed very substantially over the last few years.

The customary credit agreement for letter of credit is reimbursement agreement which details the bank's reimbursement obligation. The facility term is typically one to three years. We are starting to see banks go selectively longer than that. So we have seen some three and four year facilities getting done in the recent months. Those facilities are subject to future extensions at maturity.

In terms of liquidity facilities provided by a line of credit or some form of purchase agreement, in these instruments, the bank has certain outs that are tied to the credit standing of the underlying issuer. So a number of key credit events tied to the underlying issuer, for example bankruptcy, issuer fails to pay principal and interest, involuntary parity debt, [inaudible] rating fall below investment rate. In this instance, investors have to pay attention to the issuer's underlying credit quality because deterioration in that credit can cause the bank's support to fall away. So typically, issuers utilizing liquidity only have to be rated in the A-A minus category or better. And the bonds will carry the issuer's long term rating and the bank's short-term rating.

Once again, the typical facility term is 364 days or three years, but we are seeing longer dated facilities getting done as well.

Also, I think subsequent presenters will present this but we are also seeing a migration to direct purchases. Rather than providing liquidity facilities or letters of credits, banks are stepping up to either purchase bonds and bring those on to their balance sheet as loans and holding them as bonds, effectively taking them out of the market and holding the instruments on their balance sheet.

Slide 18: Overview (Tim Self)

In terms of -- and I guess moving to page 18, one of the big items which is having a considerable impact on the moment in terms of banks' overall credit appetite is the introduction of Basel III. What one of the most significant changes introduced by Basel III is the introduction of a liquidity coverage ratio. Effectively the liquidity coverage ratio looks at the outflows to the bank can be subject to within a 30 day period. And compares that to the stock of high quality liquid assets that the bank has on its balance sheet effectively, any outflows within a 30 day period have to be conferred by a bank stock of high quality liquid assets. Any kind of facilities that the bank provides supporting variable rate demand obligations that's reset on either a daily or weekly basis fall into the 30 day outflow bucket so banks must have a stock of high quality liquid assets to offset those outflows. Prior to January of this year, the regulators were calling for a hundred percent liquidity coverage ratio to be introduced on the first of January, 2015. In January of this year, the Basel committee actually softened those guidelines. So while they are now -- what they are now actually proposing is a minimum liquidity couple of ratio of -- coverage ratio of 60 percent starting on the 1st of January, 2015 and that requirement will step up by ten percent per year. Until they are 100 percent compliant. What this is doing across the market, and the LCR (Letter of Credit Requirement) impacts some banks more than others depending on the mix of businesses they are in. Effectively, it's causing banks to overall increase the stock of high quality liquid assets that they hold and that largely means banks are practicing more treasuries, leaving those on balance sheet. So there is a cost implication for banks in order to hold those stock of high quality liquid assets to offset the outflows they are subject to. In terms of the potential implications of Basel III, there is a potential for the changes in the LCR to cause banks to increase the cost of their credit facilities and liquidity facilities, particularly facilities that start to expire in 2015, 2016, 2017, as the LCR requirement increases in those years. And potentially, you know, constraints the supply of longer dated liquidities. Having said that, I think we are seeing post the relaxation of the liquidity coverage ratio, there was announced by Basel in January, we are certainly seeing banks willing to buy facilities out, that now about out past the end of 2014. And we are also seeing, I think, less of a constrained supply than we were anticipating before the guidelines were changed. So I think from an issuer perspective and a bank perspective, the loosening of the L-C-R rules has been viewed as a positive. The one thing I will say in relation to that is the U.S. regulators are yet to opine in relation to their interpretation of Basel III. So there is some potential that the U.S. regulators might take a different view and impose higher liquidity standards on banks operating in the U.S. Ultimately, we think that is unlikely, but it is something that is unclear at the moment. So something that we continue to monitor.

Slide 19: Overview (Tim Self)

In terms of a solution to Basel III and the liquidity coverage ratio, JPMorgan and, you know, in conjunctions with a number of other industry participants, particularly the money market funds, larger marketing agents have produced a product called callable commercial paper, which enables us to rate credit facilities that don't get captured for us as an LCR outflow. Ultimately what this enables us to do is write credit facilities that have longer dates of maturities at lower price levels than facilities that would get captured under the LCR outflow. In relation to the callable commercial paper structure, effectively what we are doing there is taking daily and weekly variable rate demand bonds and switching those into a callable commercial paper mode where they can be issued anything out to 270 days out the curve. As those instruments roll do you know the curve they become callable 35 days to their maturity, are called away from investors and rolled further out the curve. So effectively, we are taking, through a remarketing process that currently happens at day zero at maturity of the instrument, and we are pushing that 35 days out the curve. And in doing so, we are able to capture liquidity facilities that we -- and credit facilities that we write utilizing this structure outside of the LCR outflow bucket.

Slides: 20: Potential of Callable Paper (Tim Self)

On pages 20 and 21, I go into a little bit more detail on the callable paper structure. I think I have probably covered most of the points on these couple of pages in my remarks but we'll just kind of mention a few highlights here. To date, we've closed three callable paper transactions. In the comments we actually say three additional transactions mandated. We had another one today. Relatively soon we will have roughly a billion dollars of callable paper in the market. The paper is trading well with. We are seeing very good investor appetite. The paper is being sold to the same money market funds that buy traditional VDRBs. So we are seeing good overall demand for the product.

Slide: 21: Callable Paper Mechanics (Tim Self)

Page 21 goes into more details of the actual underlying callable paper mechanic. I won't go through this in specific details. But if people have questions on the mechanics and they want me to delve into more detail I can certainly do that at the Q and A stage here. I think with that, this probably wraps up my prepared comments.

Suzanne Finnegan, Senior Underwriting Officer, Build America Mutual

Moderator >>: Okay. Suzanne, could you fill us in on what's going on in bond insurance.

Slide 23: What is Bond Insurance? (Suzanne Finnegan)

>>: I will. Thank you, David. On the first slide, I just wanted to go over a little bit of a primer about what is bond insurance. The bond insurance is a form of credit enhancement, but bond insurance guarantees the scheduled repayment of principal and interest to investors on the insured bonds. And so the bond insurance is in place for the life of the bond and is on the bonds to maturity. Municipal, issuers generally get significant interest cost savings on if the bond insurer is rated higher than the municipal issuer's own underlying rating. As David pointed in and out his presentation, the spread between double A and single A ratings have compressed a lot in this interest rate environment. So issuers who were in the

single A range, occasionally a AA minus issuer might benefit from insurance. But it's really a product that Single A and B-B-B issuers benefit from the most. The interest savings is derived from the fact that the bonds are priced and trade at the rating of the bond insurer as opposed to the underlying rating of the municipal bonds themselves. The investor has a second set of eyes, if you will, who the bond insurer does the credit underwriting of the issue. And then you also get the higher rating on the bond. And in certain markets, enhanced marketability of the bond. The premium for the bond insurance is paid up front, at closing and is an allowable cost of issuance on the transaction. And the premium is based on a variety of factors, including the underlying credit quality, the term of the transaction and the amount of the premium that they represent of a portion of the total interest cost savings that the issue has received. So obviously,if the insurance premium exceeded the savings that the issuer expected to get by using the insurance you probably wouldn't get the insurance. So it's paid out of the underlying -- out of the spread.

Slide 24: Recent History of Bond Insurance (Suzanne Finnegan)

If you go to the next page, as David alluded to, there has been a dramatic change to the bond insurance market. In 2008, there were 8 bond insurance companies actively insuring Debt in the market all of those companies were rated A-A-A by both Moody's and S&P. As a result of the financial crisis, by 2011, there were no bond insurance companies rated triple A anymore, and only one company assured guaranty, still remained actively ensuring municipal transactions. And the insured penetration obviously fell over that same time period. But there are remained a certain base core level of demand for insurance in the market. Predominantly for small to medium sized issuers, but also for some of the large frequent issuers where investors were looking for some diversification in their portfolios.

As I mentioned, in 2011, only Assured Guaranty was providing insurance. But in July of 2012, Build America Mutual was formed and launched and we became the first mutual insurance agency. We spent a good part of last year assembling our licenses and explaining our product and our structure of our company and then actively began writing business earlier this year.

Slide 25: Benefits of Bond Insurance (Suzanne Finnegan)

Go to the next slide. Again, just to repeat the benefits of bond insurance, interest cost savings for the issuer, improved liquidity and transparency of the bond issue in the market. The demand for insurance and Ron is going to talk about this later -- is really at the retail investor level. Most of the institutional investors are very credit savvy, very sophisticated investors who don't really need the insurance, prefer to look through to the underlying bonds themselves. But retail still looks for insurance and looks to have some additional support on their transaction.

Slide 26: Insurance Companies Structures Differ (Suzanne Finnegan)

Now, the two active markets companies in the market are build America and assured. Build America is a mutual company operated for the benefits of its members of as each bond is insured the underlying municipal issuer of that bond becomes a member of the municipal company much like you do when you personally purchase life insurance from a mutual insurance company. And the -- that mutual model, a portion of each premium that is paid in the mutual structure goes to form a member surplus contribution. So that fills our -- builds our capital base as we issue each policy. We don't have equity investors. We don't need to raise additional capital. As we issue insurance policies, our capital base grows.

Assured is structured in the more traditional model, which was a stock company. They increase their capital through growth in their retained earnings, but also through raising capital in the equity market. And they therefore have two sort of constituent groups, both their stock holders and their policy holders. Assured has recently announced that they are launching a new municipal only financial guarantee company to increase their insured penetration in the municipal market. They also have assured guarantee AGM, assured guaranteed municipal who also writes just municipal insurance policies.

I think the other difference, the two companies focus on slightly different sectors.

Slide 27: Insurers Focus on Specific Sectors (Suzanne Finnegan)

On the next slide, for both Build America Mutual and assured, insurance company purchase in the competitive, negotiated or on the secondary market. BAM is insuring municipal only debt, only fixed rate bonds, and only in the core municipal sectors that are listed there, GO, general fund, appropriation, utility revenue, transportation, public colleges and universities, dedicated tax revenue bonds like sales tax, and then tax increment and special assessment. Assured provides coverage of all of those sectors, but they also cover health care, private higher Education and a variety of projects in the [inaudible] segments as well.

Slide 28: Build America Mutual (Suzanne Finnegan)

Just a couple of facts about Build America Mutual. Our mission is to provide substantial interest cost savings and to have a durable rating. Right now, Build America Mutual is rated A-A standard among the S&P. That's the highest rating among the two of us. We don't have a legacy portfolio. We just began operations. We insurance first loss insurance policy that provides 15 percent first loss on each policy. We also have conservative single risk limits to broke our capital base. We limit our single risk exposures to 20 percent of our statutory capital. So that would be approximately $100 million for A rated or higher bonds, and 15 percent of our statutory capital, or $75 million limb for triple B. We also have a very low target operating leverage of 50 to 60 to one. And that compares to the legacy companies who have been in this business who operated at municipal leverage of about 200 to 1. Currently, BAM is in California and 34 -- licensed in California and 34 other states and the District of Columbia. We expect to be licensed in all 50 states over the next couple of months. The other states are pending.

Slide 29: Build America Mutual (Suzanne Finnegan)

The advantages for issuers are threefold. First, as with the traditional model, the insurance provides interest cost savings by substituting really the rating of the insurer for the rating of the underlying issuer. Under the mutual structure, just like in the life insurance companies, this BAM -- if BAM pays dividends in the future which they would expect to do, then members, who are the municipal issuers would receive dividends when they are paid. A portion of the premium, as I mentioned earlier, goes to build our surplus. And so that member surplus contribution is a portion of each insurance premium, which is identified. And if the bonds are refunded in the future, then the portion that was used to -- the portion that related to the member's surplus contribution can be reused and provide a credit towards a new insurance premium if the new bonds are insured. There is an option that you could pay a portion of the premiums up front and the balance over time. But most issuers are paying all of the premium up front.

Slide 30: Build America Mutual (Suzanne Finnegan)

The other difference between build America and assured is that we are providing detailed information about each of the insured policies on our websites. We are preparing something that we call an obligor disclosure brief which is a summary of all the key financial economic and demographic factors for each insured transaction. And we are providing those on our websites. And so any participant in the market can look and see either on a specific transaction that we have insured what the key ratios and factors we reviewed were, or they can take a look through and see what kind of transactions are in our portfolio. So we think that that transparency is helpful to build investor confidence and for market participants to look at build America's portfolio and understand what kind of Business we are operating in.

These obligor disclosure briefs can also be used by participants in the market including broker dealers and can be provided to customers or clients if they choose to do so: So I think that covers most of what I wanted to talk about, David.

Moderator>>: Thank you Suzanne. Before we move on to the institutional investor view point, we have a couple of questions, a couple of questions here. I think the first one is directed towards Suzanne.

***Question*:** From the issuer's perspective, how does the application for bond insurance and the incorporation of bond insurance into the bond document differ from what it was like pre2008?

Answer:

Suzanne Finnegan>>: I think that the application process is very similar to the process in 2008 and earlier. I think one material difference is that some issuers experience difficulty in getting insurance companies that are no longer active in the market to provide consent for changes in documents or needed consent or approval as they moved forward with their transactions. So I think that what we've seen is a change in the level of control that the bond insurers are looking to have in the transaction. I think now most of the requirements basically say that the bond insurer gets to vote, you know, basically, their share of the bonds as opposed to controlling the whole transaction, which is, I think, the more typical covenant back in 2008. So I think in fact, the bond documents are cleaner and easier and less restrictive than they had been.

Moderator>>: Okay. Thank you. The next one is for Tim. You were talking about Basel III and the potential, you know, cost to the bank and effect on letter of credit costs. Some issuers have been focusing on the increased cost provisions and the reimbursement agreements.

Question: The question is, when do banks, generally speaking, pass through such increased costs? And is this on a case by case basis?

Answer:

Tim Self>>: Yes. And I think in terms of historical precedent here, I'm not aware of, you know, a bank ever in the muni space invoking an increased cost provision. So I think the likelihood of banks invoking increased cost provisions is relatively limited. However, as we move into what is a much more volatile regulator environment, and I think a regulator environment that has the potential to change banks' costs in a more material way than has been the case in the past, there is certainly a high likelihood that banks may invoke increased cost provisions going forward. I would say overall that likelihood is still unlikely and it will be on a case by case basis. But I think that's something that issuers should certainly be paying attention to over the coming years.

Moderator>>: Okay. Thank you. Tim. And the last question it looks like I have is -- I guess this could be for both Tim and Suzanne.

Question: With your crystal ball do you have an outlook or predicts of what the cost to bond insurance and letters of credit will be over the, you know, next couple of years? Is it trending upward? Downward? Stable?

Answer:

Tim>>: I'll take the credit enhancement side and then Suzanne can focus on the insurance. I think on the credit side, you know, obviously what we saw during the crisis was a substantial increase in credit spreads that banks were demanding to support variable rate debt. Post crisis we have seen the credit spread come down off those highs. And I think over the last six months or so we've seen a fairly significant compression in credit spreads. I think going forward we probably see the market remaining relatively constant in terms of, you know, the in terms of the current dynamic with healthy competition in terms of banks looking to provide credit. We don't see a substantial amount of tightening going forward but I think we also don't really see anything on the horizon that really leads us to believe that we should see a material spike in terms of credit enhancement costs.

Answers:

Suzanne >>: And I would agree with Tim. I think that's a very similar scenario for bond insurance. One of the things in particular is, you know, obviously, the bond insurance premium has to be paid out of the spread between the insured and on insured execution to the extent that either rates went up and the spread widened naturally or spreads widened for some other reason in the market, you might see some increase in the fees, but not dramatic, and certainly not predicted at this point.

Moderator>>: Thank you. We'll now turn to Ron Mintz from Vanguard to give an institutional perspective on the credit enhancement market.

Ron Mintz, Principal- Senior Credit Analyst, Vanguard

Ron>>: This is Ron speaking. Good afternoon from the east coast. Good morning to everybody on the west coast. Thank you very much for including me in this very interesting discussion so far. I wanted to start on the next page,

Slide 32: Investors Issues (Ron Mintz)

If I could, please, to just talk about long term bonds, which is mostly as Suzanne mentioned the bond insurance market. I am taking the same point of view as institutional investor, credit enhancement is really out of favor. I suppose there are two reasons for that. The first is back in 2008, when the bond market collapsed and bond insurers went, you know, went away for the most part, we were left holding billions of dollars in insured securities for which we paid an insured price and the product didn't really work out for us in those cases. You can just say once burned twice shy. The second reason is we have an analytical team that we believe is capable of evaluating the credit risk of the bonds we hold in our portfolio. And we also have a trading staff capable of evaluating all the different market pricing variables. For those two reasons we feel we would rather than -- rather than sending those revenues to the bond insurers. In an equilibrium market of course there would be, where the issuer would be indifferent between insuring a bond and not insuring a bond, the pure equilibrium, the bond insurer would take that, less than or all of that difference, and we would rather have that ditches for our shareholders. Also, from a trading perspective that the insured issues a trade at 5 basis points or so away from where they would have without the bond insurance. Traders view that as the bond insurance being given away for free. When that happens, there are cases we will buy it but we prefer not to have a portfolio of unenhanced bonds in our portfolio to do the diversification ourselves. If we do own insured bonds and they default, we will happily take the insurer's money.

Slide 33: Investor Issues (Ron Mintz)

Next slide, please. The short-term bond market is very different, however. As Tim talked about, I'm not going to belabor the differences again. But there are two kinds, letters of credit and the liquidity facilities. And those are called Stand-by bond purchase agreements. The main conference I want to leave you with from the take away perspective is when you have a letter of credit you are substituting the credit of the issuer for the credit of the bank. Less risk. However, we have a staff of bank analysts who are always up to speed on their view of different banks. So we get a credit analysis based on the credit of the bank that's providing the letter of credit. A Stand-buyer is different. The bank only provides liquidity and they can terminate that liquidity under certain circumstances. So we do the same credit analysis on the underlying obligor, and the liquidity of the bank. The reason why we do all that is artificial in a way. It's all related to SEC Rule 2a-7 regulates municipal bonds, including municipal money market bonds.

Slide 34: Investor Issues (Ron Mintz)

That is the reason we have to have the credit enhancement is the Rule 2a-7 money market bond states each security have a maximum maturity of 397 days. When you issue a letter of bond either threw letter of credit or stand by purchase agreement it will have a nominal maturity of three years. You don't have to be a math major -- 30 years. 397 days is less than 30 years. So, If these liquidity facilities or letters of credits that allow bond to be place onto a money market fund because we are allowed to date them to the put period not to the stated maturity. Weekly and dailies are the most common of these instruments. They will even have a 7 day maturity maximum or a one day maturity. And that's how we get to count it for 2-A7 purposes. For commercial paper, whether it is the callable commercial paper that Tim was talking about or traditional commercial paper, the maturity is a roll over date and by definition of what commercial paper is it has to be within 270 days. Again, that beats the 397 days.

Slide 35: Investor Issues (Ron Mintz)

Next slide. After the analyst, Rule 2a-7 also requires as a determinant that a security has minimal credit risk. Minimal credit is not a defined term. It's up to each analyst to decide for himself or herself what security poses minimal credit risk. It is our obligation to make that determination. Some may be putting securities in money market funds, some may not. The reason in the case of the stand-by bond purchase agreement or a note that would be based on the underlying credit and in the case of a letter of credit, it would be based on the bank. There are ratings requirements for the long term rating requirement. Generally in the AA category of higher, although there are exceptions that are permitted under the rule, four letters of credit, what I look at then is really just the structural and tax issues associated with the transaction. And as I mentioned the bank analysts on our staff makes a determination, a minimal credit risk determination for the bank itself and then I do that work or my colleagues depending who covers the credit rating for California will do that for liquidity facilities. Next slide.

Slide 36: Investor Issues (Ron Mintz)

The other issue I wanted to talk about is short-term rates. And there are different tests that are in place for them. They must be in the top two categories on a short-term basis to be eligible to be held in a money market fund. And the SEC has defined that to be if there are three ratings in place from Fitch, Moody’s or S&P, that two of the three must be in the highest category. If only two of them, any combination of those three ratings agencies have issued, there is two ratings present, both must be in the highest rating category. Or if you have only one, then it must be in highest rating category. There is a difference between Moody's and Fitch and Standard & Poor's however. Fitch and Standard & Poor's have F1 and F1 plus in the case of Fitch. And A1 and A1 plus in the case of Standard & Poor's for bank type facilities S-P1 and S-P1 plus in the case of notes. Those are their top rating categories. Moody’s doesn’t have the plus definition so you can actually go down further down the credit curve to qualify for that rule with Moody's. And that's because most -- while there is not a specific mapping of short-term ratings and long term rating and vice versa, there tends to be a correlation that the lower you go on the competitiveness factor the lower your short-term rating is going to be. At Vanguard, we usually only buy securities that are in the top categories. While I can't speak for other money market funds my understanding is that most of them take that same viewpoint.

Slide 37: Investor Issues (Ron Mintz)

Next slide. I want to talk for a moment about disclosure issues as it relates to 2-A7 regulated money market funds. For letters of credit there are minimal issues associated with them. Banks report quarterly. And our analytical team is able to get the information they need to make the determination. In the municipal market it's less frequent. We usually get annual disclosure and we use that with respect to liquidity rating. We notice there is a conflict between 2a7, and 15-c2 12, another rule related to municipal fund disclosure. 15-c2 12 makes an expectation for put securities that have a put feature like the ones we are talking about here, but if the only securities you have outstanding as an issuer are secured by a stand-by bond purchase agreement, you have no long term debt at all, then you are exempt from the disclosure rule but 2-A7 requires that I surveillance you and I can't do that without that disclosure. So there is a little bit of a conflict that that be either resolved by making sure there is long term debt outstanding and there is a continuing disclosure agreement in place for it. Or what we'll do is notwithstanding the exception the issuer will enter into a disclosure agreement with the underwriter.

Another issue is during the liquidity facilities, we talked about and Tim talked about as well about the fact they can be terminated under certain circumstances. It's critical that investors be informed if there is an immediate termination of that. There are a number of documents, number of parties that are informed, the underwriter, the trustee, the issuer, but the investor whose bonds they are doesn't necessarily have an automatic right to that information. When we see that, we do try to get the documents changed and we have been successful in doing so. But we do need to have that information. It's important for two reasons, one, we have to place the securities properly or bonds under the requirement under the regulations that regulate us. And also because once the liquidity facility is no longer in place, there is an immediate termination on that, there no longer to be on a money market mutual fund because of the maturity dates and we went to get them out. We want to be sure that we are a notice party for that information.

Also there are a number of cases that we can talk about in the market inaudible that you believe when you have fixed rate bonds that you have refunded and they have got an escrow on them, as long as the maturity is within 397 days in the current market that would also certainly be the case, they are eligible to be a money market fund based on their underlying treasury securities. But we do need to review the escrow documents. The [inaudible] require that they may be posted on EMMA, although Rule 2a-7 requires that you review them. So if everybody could post them on EMMA it makes the market for them much stronger and just more attractive securities for people to invest in. Those are the prepared remarks that I have, and I will be happy to answer any questions now or during the Q and A later. Thank so much.

Moderator>>: Thanks, Ron. We do actually have a couple of questions. There are current proposals relating to floating net asset values in money market funds and concerns about breaking the buck. How will the proposed changes, if implemented, affect money market funds? And will they have an overall impact on money markets, how they view liquidity and letter of credit supported products?

Answer: Ron>>: That's a good question, David, I appreciate you asking it. In term of the first question, how will the current proposal affect floating the asset value affect money markets in a profound change to the product. While I'm clearly speculating here, in my view it would radically change demand for the product. Right now the way the money market fund works is it is a fixed asset value rather than a floating net asset value. Which means for every dollar you put into a money market fund you get to take a dollar out. As long as we follow all the rules under Rule 2a-7, you can value it at the full dollar price regardless of what's going on with the underlying securities. So a floating asset value would be each security would be valued at its worth in the market. A note for example, if there has been a change in interest rates from the time it came and the evaluation is going on that would have to be reflected in the price of bank for example, providing the letter of credit. [inaudible]. Other issues that are outside the actual security itself. So I think there could be a change in demand for the product. Those people put money in a money market for the safety that's involved with it or for the short-term coming up, paying taxes, college tuition and things like that. They need to have a certain amount of money available, and they don't want to take the credit risk. I think there would be a profound change. In terms of how we view liquidity and letter of credit support, though, I don't think there would be a major change. I don't think that the change to the floating net asset valuable would have a big change into how we look at those particular products unless -- and here is the caveat: What a fund may do -- I'm not saying we are going to do this? I don't know what's going to happen. Unless funds were to say all right I am going to have a floating value anyway, I'm not going to call myself an 2a-7money market fund, I'm going to call myself a ultra-short fund and invest in the same securities but not be technically exposed to the rule. In that case -- [inaudible] that's all speculation though. I can't really know what's going to happen. But that's really where there might be a change in how we would review the liquidity and letter of credit type facilities.

Moderator>>: Good. Terrific answer. Before we move on to Joann, the rating agencies, one last question. This one is probably more directed at Suzanne based on a comment Ron said. Suzanne, Ron mentioned that their fund largely ignore bond insurance unless of course there is a default in timely payment and they expect a bond insurer to pay. Why do retail investors have a different view?

Answers:

Suzanne >>: I think the reason for that is, you know, as Ron pointed out, he has got a staff of, you know experienced credit analysts and he has a team of people who know the market and can evaluate the credit relative to the market. I think the average retail investor is not as sophisticated. They don't have the credit field necessarily to do an independent evaluation and they often don't have the resources, you know, that say Ron or someone like Vanguard would have to perform that detailed analysis. The other thing, too, is you know, the retail broker who are typically selling these bonds are selling a variety of products and they too are not necessarily municipal credit analysts. And it provides a source of, you know, instant credit for them that they can point to the rating of the bond insurer, understand bond insurance generally and not have to know all the detailed credit analysis of the underlying issue.

Ron>>: David, this is Ron. Agree with what Suzanne has to say. We get the need for the product and value of the product for the retail investor.

Moderator>>: Okay. Terrific. Let's move on to our last presentation. And that's Joann at Moody's investor services. Joann.

Joann Hempel, Vice President/Senior Credit Officer

Slide 39: Typical Enhanced Ratings

Joanne>>: Hi. Thanks. Hi, everyone. So I'm just going to touch on a little bit how we view thing from the rating agency. We are on slide 39. As mentioned before, when a transaction is backed by a letter of credit, we would apply the rating that follows both the long and short-term rating of the bank. And that's for kind of a normal letter of credit deal where you might have an unrated underlying borrower or issuer. However, when there is a rating on the borrower and they go ahead and wrap the deal with a letter of credit, Moody's does applies what we call our joint default analysis. And you can actually achieve a long term rating that's even higher than the bank's. And that is only on the long term rating. And I think it will make perfect sense why you have both your issuer and your banks are both obligated to make you know regularly schedules principal and interest payments. Therefore the long term rating can reflect both of them. Versus the short-term rating on a transaction such as this would still follow just the bank's rating because on an LOC deal the only one providing the liquidity support for the purchase price is indeed the bank. I also want to spend time on the ratings on stand-by bond purchase agreements. As mentioned the long term rating would follow the borrower. And the short-term rating follows the bank, yes, but it also is linked to the long term rating of the borrower because of the automatic termination events that have been mentioned a couple of times previously, Moody's has to reflect in that short-term rating if there is an increased likelihood of the facility terminating early. So while your bank might still have the highest possible short-term rating from Moody's, you could still possibly have a downgrade of a short-term rating again because if the long term rating of the borrower were to be downgraded, you kind of have to follow along. I do want to mention there are approximately 120 municipal issuers that Moody's has self liquidity ratings on. The majority are in higher education and health care. But we do have a couple state and local government self-liquidity issuers as well. And these are transactions where both the long and the short-term rating follow directly to the borrower. And the way a borrower can get a short-term self liquidity rating is they do this monthly reporting with Moody's and they have to have a certain amount of coverage of daily assets to their short-term lights. Moody's does also look at, you know, what their internal procedures would be to tap those assets in order to meet their liabilities as well as other, you know, qualitative measures on management. So throughout the self-liquidity that we do--and of course insured transactions, our policy is of course the long term rating would follow the higher of the published underlying rating on the issuer and the rating of the financial guarantor. And if it is an insured floating rate transaction that has a liquidity filled, similar to what I mentioned before, the short-term rating follows both the bank and the possibility of the termination. So for instance when we recently downgraded assured guarantee, although certain banks still had, you know, the highest short-term rating, we did downgrade quite a number of the short-term ratings to reflect that linkage to the financial guarantor.

Slide 40: Changes in the Liquidity Landscape (Joann Hempel)

Moving on to the next slide, we actually published our year-end review and outlook just yesterday. And this is just showing what some of the banks -- the largest issuers of both letter of credit and liquidity facilities were comparing the 2011 to 2012 in here. And you can see obviously at the top, we have JP Morgan, Wells Fargo, Bank of America still up there at number three although their volume obviously declined a great deal due to their downgrade. U.S. Bank, Fannie, Freddie, etcetera. You can see that.

Slide 41:Bank Rating- Top 7 (Joann Hempel)

On slide 41 I just put up the top seven of those banks on the prior slide and what Moody's current rates them both long and short-term. Obviously, the Bank of America is still up there, although they did indeed lose their highest short-term rating and Moody's downgraded them to the P2 versus everybody else I think it's pretty obvious, A-A and higher in the case of fanny and Freddie.

Slide 42:Key Observations From 2012 (Joann Hempel)

On the next slide, just some observations from 2012, what we saw here at Moody's. You know, obviously, we were -- we downgraded quite a large number of banks back in June who were very active in providing credit enhancement to municipal markets. In addition, there was a very, very high volume of expirations of, you know, letters of credit, liquidity facilities set for 2012. And you know, back in 2011, there were even some articles written. People were very concern about whether the market would be able to even absorb all the expirations and you know, the good news is not only were the regularly scheduled expirations absorbed, but so was the downgrade for instance of a Bank of America losing their short-term rating. And they were replaced, you know, in a lot of circumstances. So we did see, obviously, a tremendous number of extension, substitutions, as well as refinancing, people who got out of their variable rate demand bonds, went into the direct bank loans, various forms of floating rate notes, or even, you know, turning and refinancing into fixed rate bonds.

Just a note on the top five banks in the prior chart actually comprised 50 percent of the variable rate demand bond market, which is quite a lot. Again, we did see a marked increase in the use of these direct bank loans, as well as other kind of floating rate index structures, things that you know you still can take advantage of variable rate by floating based on SIFMA probably with a little spread. We saw reduced exposure to European banks. Even those with very good ratings, there has still been a shift away from them. The majority of those top providers are indeed North American. I wanted to know on the Asian banks, although it's still a very small number, relatively speaking, to the North American banks, their exposure did double from 2011 to 2012, so we definitely saw some of them coming into the market.

Slide 43: Re-Evaluation of Risks by Issuers (Joann Hempel)

On next slide, just kind of in conclusion, just, you know, when Moody's look at an issuer who has variable rate debt and you know the way we assess the riffs here from our standpoint, of course we are aware of the bank counter party risk. And you know, we know exactly who everyone is exposed to. And we watch if there is a rating change of the bank, of course. There is your, you know, roll over renewal risk that, you know, seasons we all know these facilities are much shorter than the life of the bond, there is of course rate reset exposure, of course minimal when rates are as low as they currently are. Ways that issuers have mitigated some of these risks, again, they have been proactively replacing their support providers. Issuers are doing a good job of matching their floating rate debt to the floating rate income streams. I do want to make a quick mention that you know there are a lot of people out there with Swaps on these variable rate demand bonds. Of course not everyone is going to refinance out of them if they want to match that swap exposure that's out there. Although we have indeed seen more reliance on fixed-rate debt as well as this conversion from the -- to the direct loans from the bank. I want to mention something about the direct loans. The majority of the ones that we see here at Moody's, it only has a limited life--they are typically about three to five years. So Moody's does still consider this renewal or roll over risk that will happen at the end of the life of that bank loan. And that's the end of my prepared remarks. I guess we'll see if there are any questions.

Moderator>>: We do have one. Well, actually, I have two here. The first one, you just touched on the fact that variable rate demand bonds have in some cases been converted to bank loans. As a rating analyst, what advice would you have for an issuer who is executing, you know, one of these direct loans, particularly with communication with Moody's?

Answers:

Joann>>: Yes. You know, it's obviously typically these direct bank loans would not be requesting a rating from Moody's. So sometimes people then think we don't need to, you know, really tell them much. But, you know, it is important for an analyst who is following a credit to look in advance in draft form what that agreement look like. Because we do want to look at what risks are here. Because these direct bank loans, similar to the other bank agreements that have been mentioned earlier, like reimbursement agreements, have defaults in them, and they have the right for the bank to accelerate. So it is definitely still a concern where we want to know, you know, is there possibly liquidity risk, depending on the terms of that document. It is important to send it over to the analysts at Moody's so they can look it over to make sure there is no increased risk because of the issuer entering into this agreement.

Ron>>: This is Ron from an investor's perspective I wanted to echo what Joann had to say. For the same reasons about the possible default and acceleration. We care about them as well. So we strongly encourage issuers to post the term as well as the disclosure related to their bank agreements on EMMA.

Question>>: Joann, two more questions popped up here for the rating agency. The first is, what happens if the issuer and the bond insurance have the same credit rating? Is either rating considered to be primary?

Answers:

Joann>>: That's a good question. It actually is like almost automated in our system so that the higher rating appears on Moody's.com. So you would just see the rating. And it wouldn't really matter in that case which rating was actually pushing that higher rating. In this case, it could be either.

Moderator>>: Okay. And an interesting question. And the other one that popped up for Moody's is, from your perspective, what are the risks associated with the callable CP structure?

Joann>>: You know, we rated a number of them, and we you know, really, to us, it's just a nifty little restructuring of regular CP that just changes the time lines. I don't really necessarily see an increased risk or decreased risk to the issuer. It's really just whatever the normal commercial paper risk would be. You know, it's really done more for the bank's perspective, as Tim mentioned for the Basel III.

Ron>>: This is Ron again. If I could just jump in… I wanted to say while we understand how that works in the bank's interest and respect to Basel III, what it also does is it extends the maturity of those notes because you are basically calling out at least 35 days and likely longer. The issue that raises for us as money market investors is how the SEC has weighted how the maturity fund be reduced. We talk about the maximum maturity being 397, but for the weighted average maturity for a fund it has to be 45 days at the moment of so when you have got a 30 day CP, a product we used quite a bit, still use quite a bit. A regular CP, if it's callable, it makes it seem longer. So it's not as attractive for us from that standpoint. It doesn't change the credit. Really, just the structure and compliance with SEC rules.

Tim >>: One thing I will say on the callable commercial paper, I think compared to regular C-P it doesn't change the short-term maturity profile from the issuer's perspective. I think what it does do for issuers who have VDRBs on a daily and weekly mode, who are subject to that put risk if the paper can't be rolled, switching to the callable does give a better short-term maturity risk profile because it's taking those daily and weekly resets and spreading those across the curve. I think in terms of investor appetite as well, I definitely take the point that the -- their structure or this mode does push maturities further out the curve. I think we are finding the money market fund typically have room within their weighted average maturity profiles to take on a little bit of duration. And we certainly don't see the structure replacing daily and weekly VDRBs. It's just a mode that will fit some issuers, but not for others. We see growing market, but we also don't see them as a replacement for traditional VDRBs.

Moderator>>: Okay. Thank you, panelists. We are now entering into -- we have eight to ten minutes left. So if attendees would like to submit any questions on-line, please do so. Just to start it off, I just have one that each of the panelists could answer from their perspective. What one area do you think issuers should focus on when incorporating credit enhancement in their plans to finance? And let's start with Ron.

Answers:

Ron>>: I guess to the fact that there are -- when you go to structure your deal and, you know, getting ready to come to market, there are -- you are spending a lot of time at the table and there is representatives for the underwriters and representatives of the issuers there, maybe the credit enhancement provider is there, but there is really nobody there from who is actually going to buy these bond necessarily. So I ask that you be sensitive to what our needs are, for managing -- on the short-term side for managing the duration of the fund, and the types of credit enhancement, the disclosure features we talked about before. Being sensitive to those issues. And also giving us time to do the deal. You have been working on the deal for a long time. You see the end for a long time; you see the papers on the street and want to price it ten minutes later. Assuming the papers are really correct, we need to read through them, analyze them and discuss it with the desk, and giving us an appropriate time to review the document.

Moderator>>: And Tim?

Tim >>: Can you repeat the question again there?

Moderator >>: What one area do you think that issuers should focus on when incorporating credit enhancement in their plan of finance. If you had to pick one area--from your view point, what would be the focus?

Tim>>: Yeah. I think a couple of things at a high level. I would firstly say just working out from an issuer perspective, what is the correct portion of your capital structure to have as -- in variable rate mode? I think prior to the crisis we saw, you know, issuers I think it would be fair to say overextending the amount of variable rate that they had. So we saw certain issues that were a hundred percent variable that frankly should have been a hundred percent fixed. I know the rating agencies will look at a 20 percent guideline sometimes as being appropriate. But I think you know, really focusing on how much short-term debt you want. I mean, clearly, if you are a hundred percent fixed, it's the most conservative structure. It's also the most expensive. If you are a hundred percent variable, it's probably the cheapest structure, but it's the most risky. So picking how much variable rate that you want is very important, and then making sure that that variable rate is supported by the strongest possible credit counter parties. And you have diversity among those credit counter parties I think is key.

David>>: Sorry. I had it on mute. Suzanne?

Suzanne>>: I would say also, you know as we talked about today there are a variety of credit enhancement products. And so when issuers are looking at how to incorporate enhancement in their total plan of finance, I think they should be focusing on looking at the term of the debt that they have outstanding and see efficiencies of the different products at different terms. I think that, you know, as people are evaluating the variety of options available to them, certain products are more efficient at certain points among the curve. Others are -- you know. And so I think you need to evaluate everything, all the different products that are available, especially in this interest rate environment, which is so favorable for issuers to really look at all the products that they can use and identify, you know, which product is best suited to which type of obligation and the term of that obligation.

Moderator>>: Okay. And, Joann-- any thoughts? And then I have one more question that came up on line.

Joann>>: The only thing I can add to that is from our standpoint we also look at diversification. If someone has various variable rate transaction swaps, etcetera, we would look to see some diversification with which the counter parties are they are exposed to.

Moderator>>: Okay. The question in the audience, and I'll answer, and somebody else can jump in, is -- question is, do you expect issuers to continue to report bond insurer downgrades on EMMA if they have been downgraded below the credit rating on the issuer?

That really is a question for the terms of your continuing disclosure agreement, which is, I believe, in most cases if not all, tied to the rating of the securities: So our advice has been, you know, from an underwriter's perspective, that you should seek advice from your bond counsel or disclosure counsel is yes, you would continue to report that. And I would suggest you continue to report that. But when it does fall below, there are some attorneys out there that believe that you could technically stop reporting that if the rating did not change on the actual security. I'll let any of the other panelists chime in and say their different thoughts. Okay. Hearing none… I believe that wraps up our presentation. So on behalf of myself, the moderator, and the panelist, we thank you for this time. And I will turn it back over to our host, CDIAC.

Mark Campbell, CDIAC>>: I want to thank all the speakers for their contributions today. And David, thank you very much for facilitating. So we'll close out the webinar. I will take a minute to do a brief commercial for CDIAC, future education programs. We've got two classroom sessions scheduled, both on the same topic, and titled Funding and Financing of Maintenance and Public Infrastructure Using Special Assessments: New approaches for Achieving Successful Outcomes. We've partnered both of these seminars with the UC extension programs. So the first program, April 11th, will be held in Sacramento in conjunction with the UC Davis extension. And the second, April 25th, will be held in Los Angeles supported by the UCLA extension program. So those are the two remaining educational programs we have on the calendar now. Look forward to future postings and future seminars and webinars in the spring as we develop our curriculum. Thank you all for participating. And we look forward to your participation in the future.

Tim>>: Thanks very much. Bye-bye.