



Evaluation of Municipal Securities

I. Overview & Industry Trends

Overview of Presentation

**Overview &
Industry Trends**

**Investment
Policies &
Procedures**

**Basic
Analysis**

**Expanded
Analysis**

**Review &
Additional
Resources**

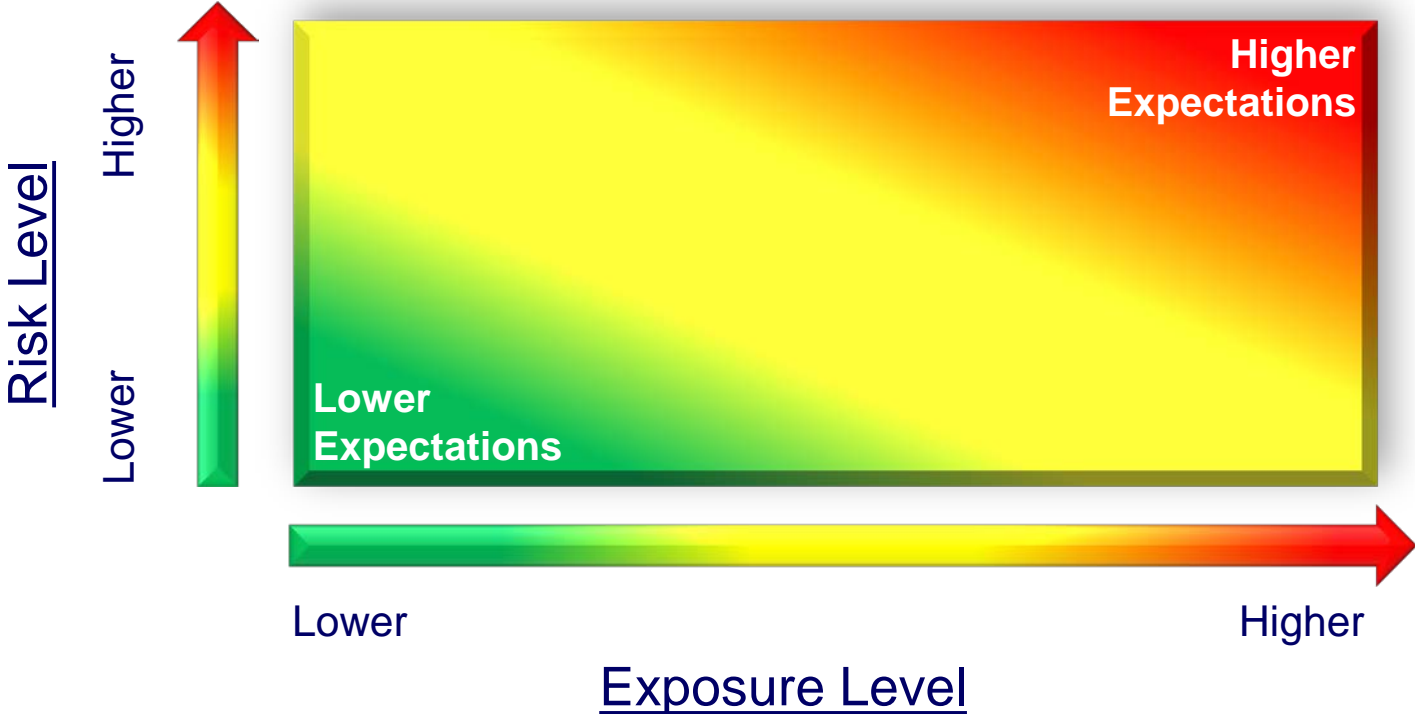
Recent Regulatory Changes

The Dodd-Frank Act required regulators to remove references to ratings provided by rating agencies from regulations.

In 2012, the OCC & FDIC issued Final Rules and Guidance addressing alternatives to the use of external credit ratings.

Banks cannot rely solely on credit ratings to determine creditworthiness.

Supervisory Expectations



Market Characteristics

- Size of market: \$3.7 Trillion
- Average annual issuance: \$381.2 Billion
- Majority of new issuances are under \$10 Million
- Number of bonds outstanding: > 1 Million
- Number of issuers: > 89 Thousand

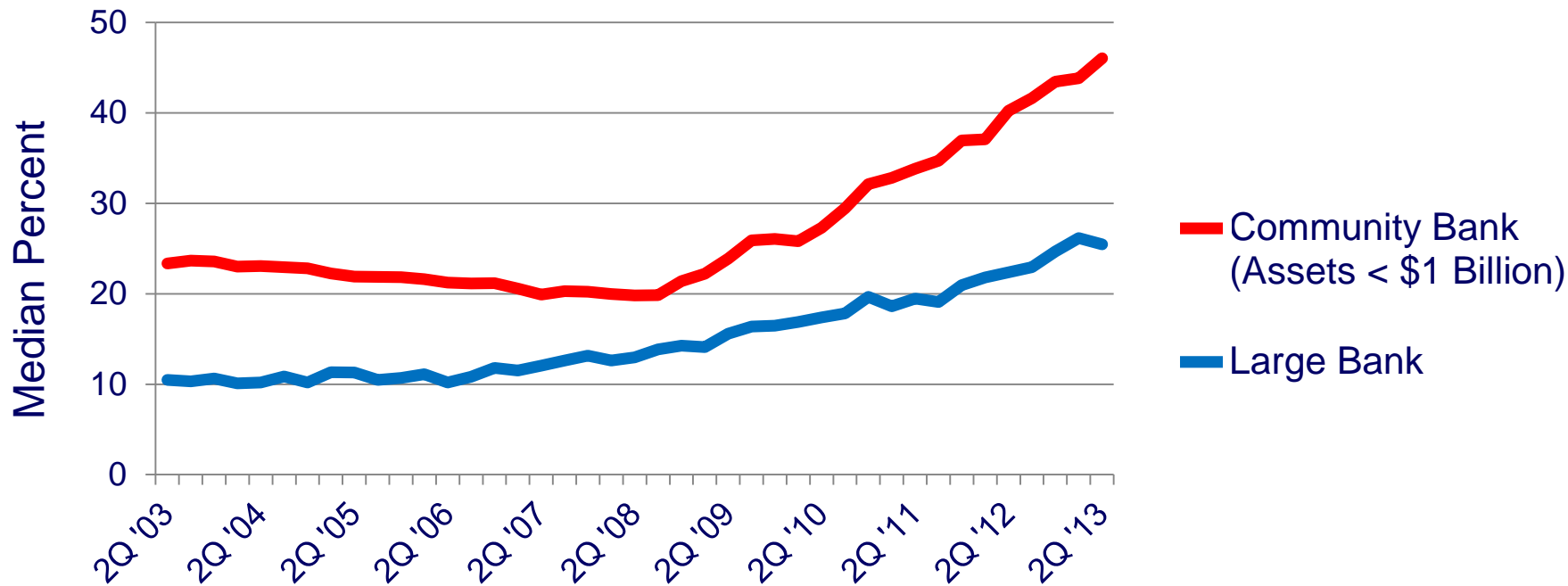
As of December 31, 2012

Challenges in Assessing Credit Risk

- Untimely financial information
- Different accounting standards (GASB vs. FASB)
- Unfunded pension and other postemployment benefit obligations
- Legal uncertainty
- State-specific bankruptcy laws

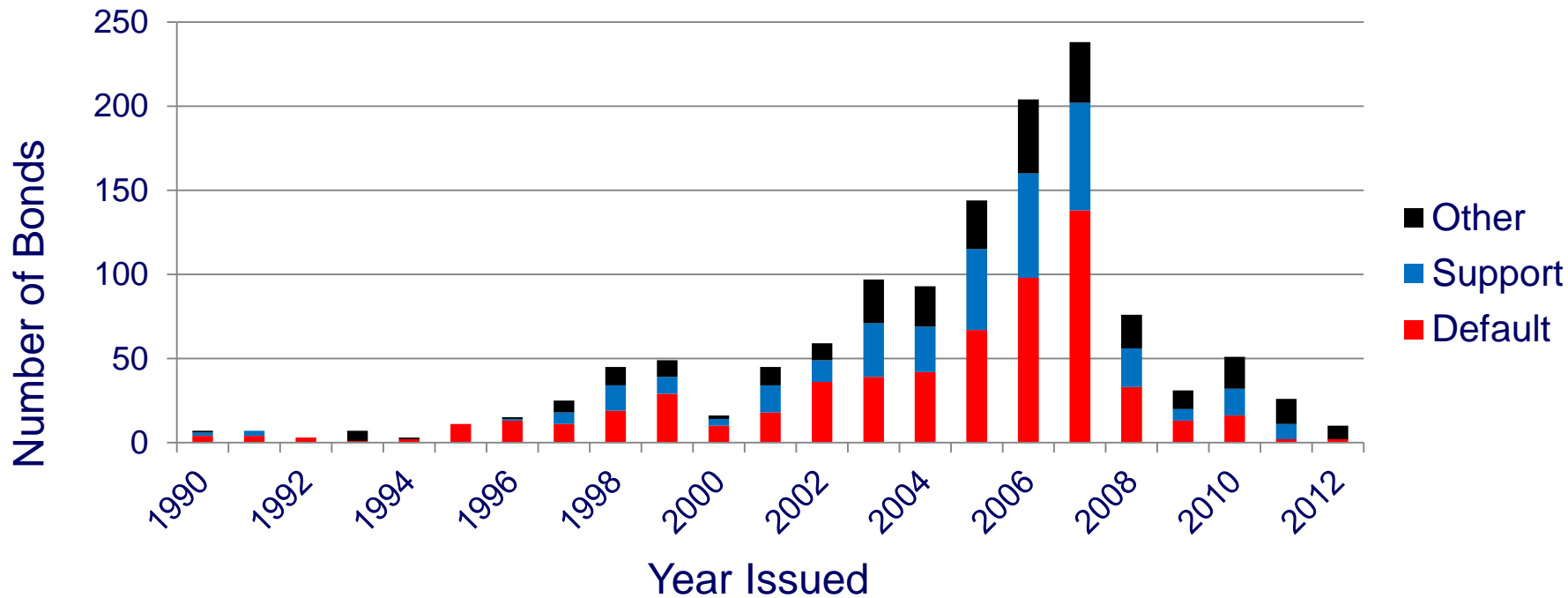
Bank Median Exposures to Municipalities

Municipal Exposures to Capital



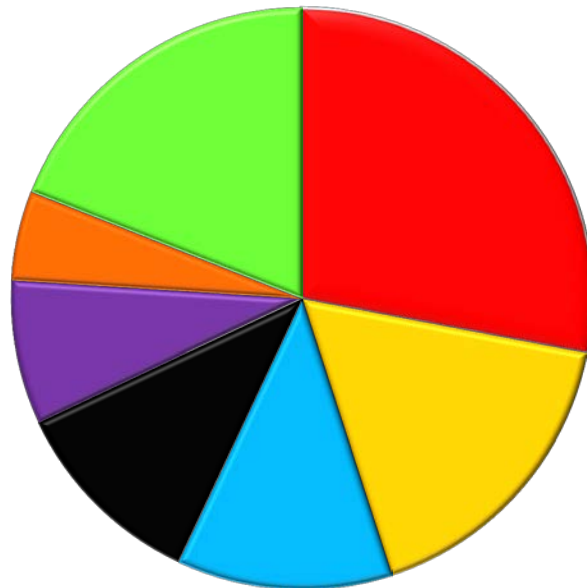
Vintage Analysis

Municipal Bonds Disclosing Impairment by Year Issued



Municipal Bond Historical Defaults

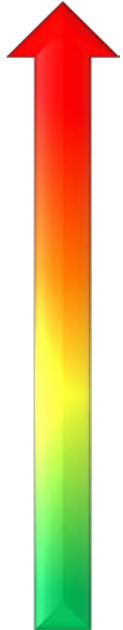
Defaults (1958-2011)



- Industrial Development Bonds
- Housing
- Nursing Homes
- Health Care
- Special Assessments
- Retirement
- Other

Credit Risk by Type of Municipal Issuance

Higher Risk



Lower Risk



Other Municipal Issuances



Non-Essential Purpose Revenue
Obligation Bonds



Essential Purpose Revenue Obligation
Bonds



General Obligation Bonds

Summary

- Banks should have a process to determine whether investments satisfy creditworthiness standards
- Banks cannot rely exclusively on external credit ratings to determine creditworthiness
- Supervisory expectations are based on the exposure level and risk profile of the portfolio