Evaluation of Municipal Securities

III. Basic Analysis
Pre-Purchase Analysis

- Interest Rate Risk
- Credit Risk
- Liquidity Risk

Pre-Purchase Analysis
Credit Risk Analysis

Internal → Credit Risk → Third-Party
Credit Risk Analysis Factors

- Location & Economic Conditions
- Type of Issuance
- Financial Condition
- Fiscal Responsibility
- Rating Agency Reports

FEDERAL DEPOSIT INSURANCE CORPORATION
Location & Economic Conditions

Local Issuer

- No
  - Expanded Economic Analysis

Stable Economy

- Yes
  - Basic Analysis
- No
  - Expanded Analysis
Type of Issuance

Higher Risk

- Other Municipal Issuances
- Non-Essential Purpose Revenue Obligation Bonds
- Essential Purpose Revenue Obligation Bonds

Lower Risk

- General Obligation Bonds
# Financial Condition

## Potential Examples

<table>
<thead>
<tr>
<th>Financial Condition</th>
<th>Ratio</th>
<th>Within Policy Guidelines?</th>
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<tbody>
<tr>
<td>Leverage (Debt Per Capita)</td>
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<tr>
<td>Leverage (Debt To Assessed Value)</td>
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<tr>
<td>Capacity (Debt Service Coverage Ratio)</td>
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<tr>
<td>Protection (Covenant Compliance)</td>
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Fiscal Responsibility

- Audit
- Budget
- Disclosure

Fiscal Responsibility
Rating Agency Reports

- **Credit rating**
  - Can be one component of the credit analysis process
  - Not always updated on a timely basis after issuance

- **Credit rating median reports**
  - Can be one tool for establishing policy guidelines
  - Limited to that rating agency’s universe of rated bonds

- **Other rating agency reports (examples)**
  - Sector outlook
  - Default statistics
  - Rating methodologies
Pre-Purchase Analysis

- Interest Rate Risk
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Pre-Purchase Analysis
Pre-Purchase Analysis

- Credit Risk
- Interest Rate Risk
- Liquidity Risk

Pre-Purchase Analysis

FEDERAL DEPOSIT INSURANCE CORPORATION
Liquidity Risk

Secondary Market

Collateral Eligibility

Issuance Attributes

Municipality Size

Liquidity Risk

FEDERAL DEPOSIT INSURANCE CORPORATION
Ongoing Credit Risk Analysis Factors

- Location & Economic Conditions
- Type of Issuance
- Financial Condition
- Fiscal Responsibility
- Rating Agency Reports
Ongoing Monitoring

- Ongoing monitoring should be completed annually or more frequently, as warranted
- Ongoing monitoring must be documented
Resources

- EMMA – www.emma.msrb.org
- Issuer
- State Auditor/Attorney General
- Other third-party providers
Summary

- Basic analysis must be conducted on each bond
  - Credit Risk
  - Interest Rate Risk
  - Liquidity Risk

- If concerns are identified, some form of expanded analysis should be performed