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Update on Current Conditions in the Credit Markets

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General Market News

- On Friday, a Labor Department report showed that the U.S. unemployment rate held at 9.7 percent and payrolls dropped by 36,000 last month after a revised 26,000 decrease in January.
  - The jobless rate was projected to increase to 9.8 percent and payrolls were forecasted to decrease by 68,000.
- Last week, two regional Federal Reserve Bank presidents, Chicago and St. Louis, expressed the need to keep rates low until the recovery picks up.
  - Chicago Fed President Charles Evans told reporters that he "needs to see signs of 'highly sustainable' growth before supporting steps toward tighter monetary policy."
  - St. Louis Fed President James Bullard stated that, "with the economy at an early stage of renewal, policy makers want to remain 'very accommodative'."
- U.S. consumer spending in January increased slightly faster than expected. The Commerce Department announced that spending rose 0.5 percent, increasing for a fourth straight month.

Municipal Fixed Rate Market

- While the market was firm throughout the early part of the week, most participants remained somewhat quiet as the market was awaiting the employment report on Friday.

		MMD – US Treasury Ratio					
		Since 7/1/2004			Rolling 1-year		
Maturity	MMD (Close 3/5)	Minimum	Maximum	Average	Average	Current (Close 3/5)	Last Update (2/26)
1-year	0.25	51.75	257.58	84.49	88.28	66.49	79.88
5-year	1.45	58.80	229.46	85.66	78.93	61.97	63.36
10-year	2.81	76.05	190.45	89.22	87.80	76.15	78.45
15-year	3.33	80.99	215.36	96.93	98.59	84.58	86.51
20-year	3.79	81.96	221.82	100.35	104.38	90.71	92.77
30-year	4.15	82.74	212.27	100.14	103.03	89.06	91.23

- The 1-10 year range continued its recent strength while the intermediate sector remained steady. However, intermediate bonds with shorter calls (2013-2016) saw aggressive bidding.
- The long end pushed credit spreads tighter for callable high grade securities while retail appeared mixed.
- With the employment report behind us and municipal to Treasury ratios pushing tighter it will be interesting to see how the overall market performs this week.

Build America Bonds ("BABs")

- BABs for the week held steady, however the new issue Municipal Electric Authority of Georgia ("MEAG") deal, priced at +205, saw bid spreads tighten immediately to +190.
- The following are the Build America Bond secondary market spreads as of close Friday (3/5):

Transaction	State of California	University of Texas	City of Chicago
Sale Date	10/08/2009	6/10/2009	1/11/2010
Ratings	Baa1/A/BBB	Aaa/AAA/AAA	Aa3/AA-/AA
Selected Maturity	2039	2039	2036
Call Provisions	Non-Callable	Make-Whole + 20bps	Make-Whole +25bps
Initial Taxable Yield (%)	7.30	5.262	6.207
Initial Spread to Treasury (bps)	325	+100	150
Current Spread to Treasury (bps)	+312	+92	+158
Initial Tax-Exempt Equivalent Yield(%)[1]	3.88	3.42	4.03
Initial Spread to MMD (bps)[1]	87	(130)	(6)
Current Spread to MMD (bps)[1]	91	(52)	(6)

[1]Tax-Exempt Equivalent Yield takes into account the 35% interest-cost rebate from the U.S. Treasury

Visible Supply (as reported by TM3)

- The 30-day tax-exempt visible supply is approximately $11.5 billion.
- The maximum visible supply over the last 60 days was $13.6 billion, while the minimum was $3.0 billion and the average was $8.3 billion.

Recent Developments with the Monoline Insurers

	Moody's			S&P			Fitch	
AMBAC	Caa2	developing outlook	7/29/2009	CC	developing outlook	12/2/2009	rating withdrawn	6/26/2008
ASSURED	Aa3	negative outlook	12/18/2009	AAA	negative outlook	7/1/2009	rating withdrawn	2/24/2010
BHAC	Aa1	stable outlook	4/8/2009	AA+	stable outlook	2/4/2010	not rated	
CIFG	rating withdrawn		11/11/2009	rating withdrawn		2/16/2010	rating withdrawn	10/21/2008
FGIC	rating withdrawn		4/14/2009	rating withdrawn		4/22/2009	rating withdrawn	11/24/2008
AGM*	Aa3	negative outlook	11/12/2009	AAA	negative outlook	4/21/2009	rating withdrawn	2/24/2010
NATIONAL**	Baa1	developing outlook	6/25/2009	A	developing outlook	6/5/2009	rating withdrawn	6/26/2008
RADIAN	Ba1	stable outlook	3/12/2009	BB-	negative outlook	12/22/2009	rating withdrawn	5/2/2008
SYNCORA***	Ca	developing outlook	3/9/2009	regulatory supervision		4/27/2009	rating withdrawn	9/5/2008

*Formerly FSA
**Formerly MBIA
***Formerly XL Capital

Municipal Variable Rate Market

- SIFMA reset at a 0.17%, approximately 74.519% on a day count adjusted basis of 1-month LIBOR (0.228%) and 67.476% on a day count adjusted basis of 3-month LIBOR (0.252%).

Derivatives Market

- Municipal swap rates were nearly flat to 6 bps higher across the curve over the week. 20-year SIFMA swap rates decreased by 0.9 bps to 3.539% from 3.530% from the week before.
- Ratio (tax) risk value decreased slightly over the week with 20-year ratios (SIFMA swap rates as a percentage of LIBOR swap rates) decreasing to 81.625% from 82.750% a week prior; however, 20-year LIBOR swap rates increased by 7 bps leading to dealers willing to pay 3 bps less over 70% of LIBOR in return for receiving SIFMA over 20 years versus a week ago for the same basis swap (30 bps v. 33 bps a week ago). This translates to $300,000 of positive annual carry for entering into a 20 year basis swap on $100 million of notional amount provided SIFMA averages 70% of LIBOR over the life of that trade.
- Option value decreased slightly over the week with volatility of entering into a 15-year swap 5-years from today decreasing to 18.680% from 18.865% a week ago.