

Cost Benefit of Getting Notes Rated

Credit ratings are intrinsically tied to an issuer's market access and cost of capital as evidenced by the interest rate it receives on its debt. Generally, the higher an issuer's credit rating, the better its market access and number of bidders at competitive sale, and the lower the interest rate paid on its obligations. For each long-term debt issue (i.e. bonds), prospective investors expect the issuer to obtain an updated credit rating from one of the major rating agencies. However, for short-term debt issues, such as BANs, TANs, and RANs, the market remains robust for notes without a short-term rating if the issuer already maintains an underlying, investment grade, long-term rating. Obtaining a rating for a note comes into play when a note is of sufficient size, and market conditions result in increased access and better pricing such that the savings in interest expense exceed the cost of the rating. Such are the conditions we find ourselves in currently.

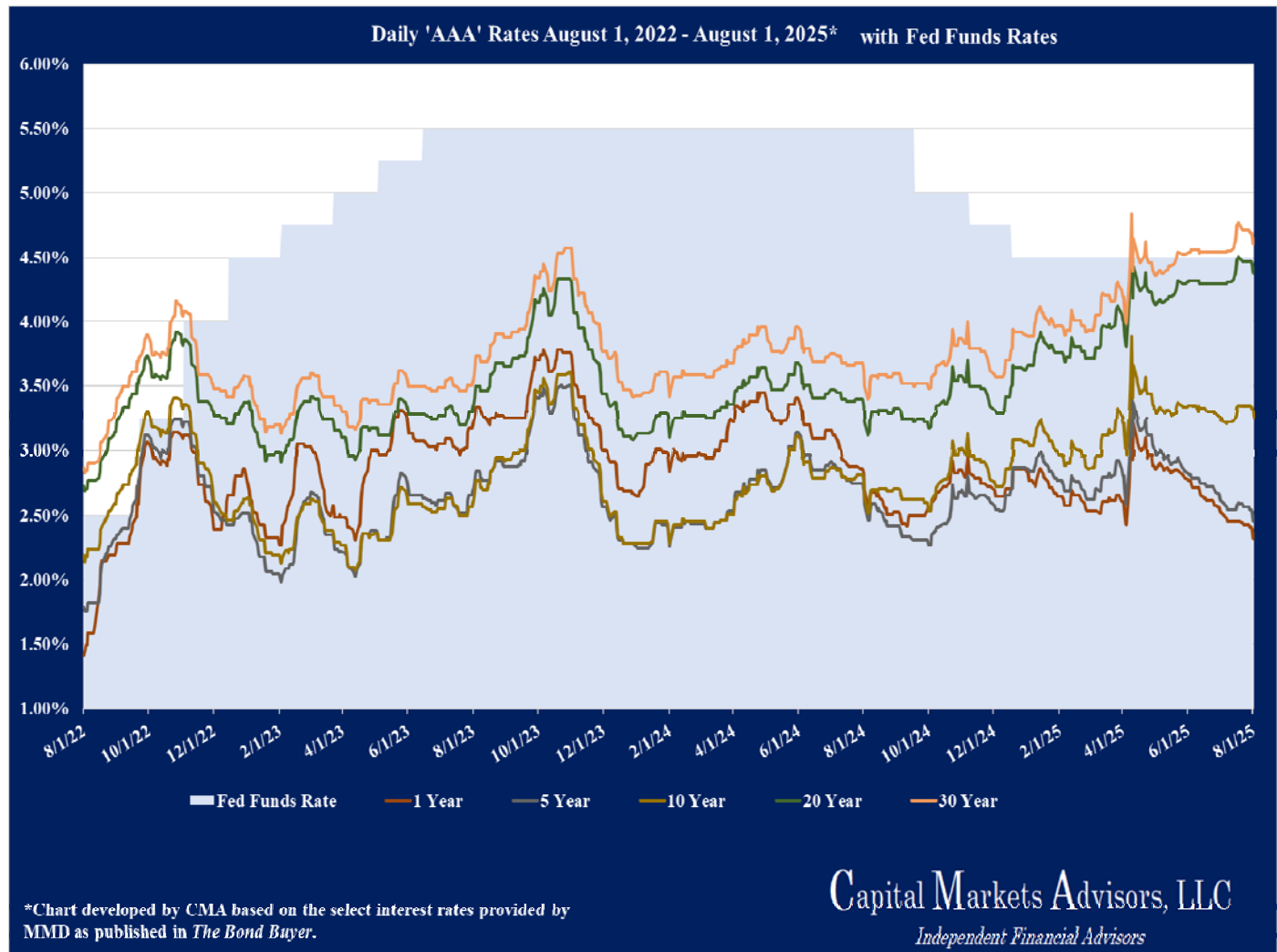
As interest rates began to rise from historic lows toward the end of 2021, the cost of obtaining a credit rating became less significant with a short-term financing. CMA has tracked and analyzed results of rated versus unrated notes for many years. Notably, the savings from having notes rated have been significant and continue to grow, even as short-term rates have fallen ~70 basis points (0.70%) since the April peak following the initial tariff announcements. As uncertainties around tariff-related inflation and growth persist, the spreads between the very highest rated (AAA) debt and other investment grade debt has risen. However, for the rating agency Moody's Investors Service, an issuer with a long-term rating of "A3" or above will likely be given the highest short-term rating available, "MIG 1". Savings vary from week-to-week but since 2022, the average interest rate savings for a "Aa2/AA" credit has been ~15 basis points. Due to the cost of obtaining the rating, this interest rate differential results in significant net savings for notes with par amounts greater than \$7 million. Accordingly, it is a good practice for an issuer to have its Municipal Advisor perform cost benefit analysis to determine whether getting a note issue with a par amount greater than \$7 million rated is a worthwhile investment.

We hope the foregoing is helpful, and as always, please reach out to your CMA representative if you have any additional questions related to the credit rating process. CMA will continue to monitor the cost benefit of note ratings and recommend obtaining one for clients that meet the criteria.

RECENT CMA CLIENT SALE RESULTS

<u>Issuer/Underlying Rating</u>	<u>Issue Type</u>	<u>Par Amount</u>	<u>Sale Date</u>	<u>Term</u>	<u>Rate</u>	<u>Purchaser</u>
Bay Shore UFSD (MIG 1/Aa3)	BAN	\$ 55,250,000	1 – July	1 yr.	2.95%	J.P. Morgan Securities LLC
Lancaster Town (MIG 1/Aa3)	BAN	19,008,926	8 – July	1 yr.	2.91%	Jefferies LLC
Buffalo Sewer (Aa3)	Rev. Bonds	47,845,000	Negot.	30 yrs.	4.61%	Ramirez & Co. / FHN Financial
Lackawanna City SD (A2)	Ref. Bonds	4,415,000	15 – July	7 yrs.	3.00%	StoneX Financial, Inc.
Rochester City (SP 1+/AA-)	BAN	171,255,000	16 – July	1 yr.	2.63%	Wells Fargo Bank, N.A.
Rockville Centre Vil. (AAA)	Bonds	20,055,000	17 – July	16 yrs.	3.53%	FHN Financial Capital Markets
Amherst CSD (MIG 1/Aa3)	BAN	47,478,317	23 – July	1 yr.	2.66%	J.P. Morgan Securities LLC
Islip Town (Aaa)	Ref. Bonds	9,685,000	29 – July	5 yrs.	2.24%	Loop Capital Markets, LLC
Rockland County (Aaa)	Bonds	69,675,000	31 – July	29 yrs.	4.18%	J.P. Morgan Securities LLC

Interest Rate Chart



Questions? Comments? Contact any of CMA's 10 Municipal Advisor Representatives listed below.

Richard Tortora at rtortora@capmark.org

Rick Ganci at rganci@capmark.org

Anthony Nash at anash@capmark.org

Janet Morley at jmorley@capmark.org

Alex Kerr at akerr@capmark.org

Tom Vouzakis at tvousakis@capmark.org

Alex LoCascio at alocascio@capmark.org

Madeline Reid at mreid@capmark.org

Morgan Reid at mreid1@capmark.org

Diana Castañeda at dcastaneda@capmark.org

GENERAL OBLIGATION TAX-EXEMPT INTEREST RATES

	August 1, 2025					1 Month Ago - July 1, 2025					1 Year Ago - August 1, 2024				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	2.32%	2.43%	2.35%	2.41%	2.79%	2.54%	2.57%	2.65%	2.63%	3.01%	2.83%	2.87%	2.95%	2.93%	3.30%
5	2.46	2.62	2.50	5.66	3.05	2.63	2.67	2.79	2.83	3.22	2.69	2.74	2.86	2.87	3.28
10	3.25	3.50	3.36	3.60	4.08	3.25	3.36	3.50	3.60	4.08	2.76	2.86	3.04	3.10	3.59
20	4.38	4.74	4.59	4.82	5.26	4.30	4.51	4.66	4.74	5.18	3.34	3.54	3.73	3.77	4.22
30	4.60	4.97	4.82	5.05	5.50	4.54	4.76	4.91	4.99	5.44	3.62	3.83	4.02	4.06	4.52