

Continued Trend Towards Single-Rated Issuances in the Muni Market

The **Bond Buyer** recently reported that the trend toward single-rated municipal bonds has accelerated this year, which has caused some concern among investors who are used to having two or even three ratings to rely on in years past when they made investment decisions. According to Municipal Market Advisors, single rating transactions have accounted for roughly 25% of new sales by par value so far this year which is a 17.5% increase from the number of single rated issues during the same period last year. This trend has been developing for over a decade considering the amount of single rated issues had risen to 21.1% in 2017 from only 13.4% in 2007.

Having a single credit rating results in reduced issuance costs for the issuer and increased competition among rating agencies as they vie to become the chosen firm. Despite the benefit of this trend for issuers, there is added potential risk, in addition to increased competition, for the rating agencies. Inherently one of the biggest concerns from buyers is that issuers will opt to choose the firm that will result in the highest credit rating, which will then attract the lowest interest rates for the issuer. Since a rating agency's rating criteria is readily available, it isn't difficult for an issuer to pick the rating agency that might favor it based on how it stacks up with each agency's criteria and how they have rated similar municipalities. Some buyers in the primary market state that this could deny them with a level of credit research that they have enjoyed for decades. The CEO of a large municipal market research firm was quoted in a recent **Bond Buyer** article as saying "If rating agencies lower their standards to appeal to 'rating shoppers', they essentially risk diluting their reputation and relevance." He added "Whenever I see a bond rated by only one agency, I have to ask myself. 'Did the issuer do this to save on rating fees or would the other agencies have rated this bond lower.'" CMA notes that more and more institutional investors rely on their own, in house credit analysts and less on the rating agencies when making investment decisions.

At CMA, we have been advocating for a single credit rating for most of our general obligation issuers for years. The majority of our clients are rated in the double-A category and our analysis has shown that multiple ratings are often not cost effective for those issuers. On the other hand, for issuers of revenue bonds, for weaker credits or those issuing a large amount of bonds in a single offering, often a second rating can provide value. With increased scrutiny on expenditures and the average rating agency fee for a \$25 million, general obligation bond issue exceeding \$25,000 per rating agency, the number of issuers maintaining single credit ratings is likely to continue to increase in the future.

MMD GENERAL OBLIGATION INTEREST RATES

Term	July 2, 2018					June 1, 2018					July 3, 2017				
	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	1.50%	1.52%	1.60%	1.70%	1.97%	1.62%	1.64%	1.72%	1.82%	2.09%	0.91%	0.95%	1.02%	1.12%	1.39%
5	2.00	2.08	2.27	2.39	2.71	1.99	2.08	2.28	2.40	2.71	1.37	1.48	1.67	1.77	2.08
10	2.46	2.64	2.81	2.94	3.29	2.44	2.63	2.80	2.93	3.28	2.01	2.22	2.47	2.57	2.92
15	2.67	2.87	3.03	3.16	3.52	2.64	2.85	3.01	3.14	3.50	2.45	2.70	2.93	3.03	3.39
20	2.82	3.02	3.16	3.31	3.65	2.80	3.01	3.15	3.30	3.64	2.66	2.91	3.11	3.23	3.55

RECENT CMA CLIENT SALE RESULTS

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
North Babylon UFSD	BAN	\$ 10,000,000	28-June	12 mos.	1.89%	Jefferies LLC
Bedford CSD	Bonds	\$ 29,700,000	28-June	15 yrs.	2.79%	Citigroup Global Markets Inc.
East Ramapo CSD	TAN	\$ 16,000,000	28-June	3 mos.	2.03%	TD Securities (USA) LLC
New Rochelle City SD	BAN	\$ 54,325,000	27-June	12 mos.	1.81%	JP Morgan Securities
Oceanside UFSD	TAN	\$ 20,000,000	26-June	12 mos.	1.77%	TD Securities (USA) LLC
Monroe County	Bonds	\$ 77,815,000	20-June	20 yrs.	2.99%	Citigroup Global Markets Inc.
Islip UFSD	BAN	\$ 19,770,000	19-June	6 mos.	1.67%	Jefferies LLC
Tonawanda City SD	Ref. Bonds	\$ 2,335,000	14-June	5 yrs.	1.96%	Robert W. Baird & Co., Inc.
Nyack UFSD	BAN	\$ 18,965,000	13-June	12 mos.	1.76%	TD Securities (USA) LLC