

BUILD AMERICA BONDS (BABs) Issuance in 2009

December 30, 2009

This is the 4th in our series* of reports on Build America Bonds.

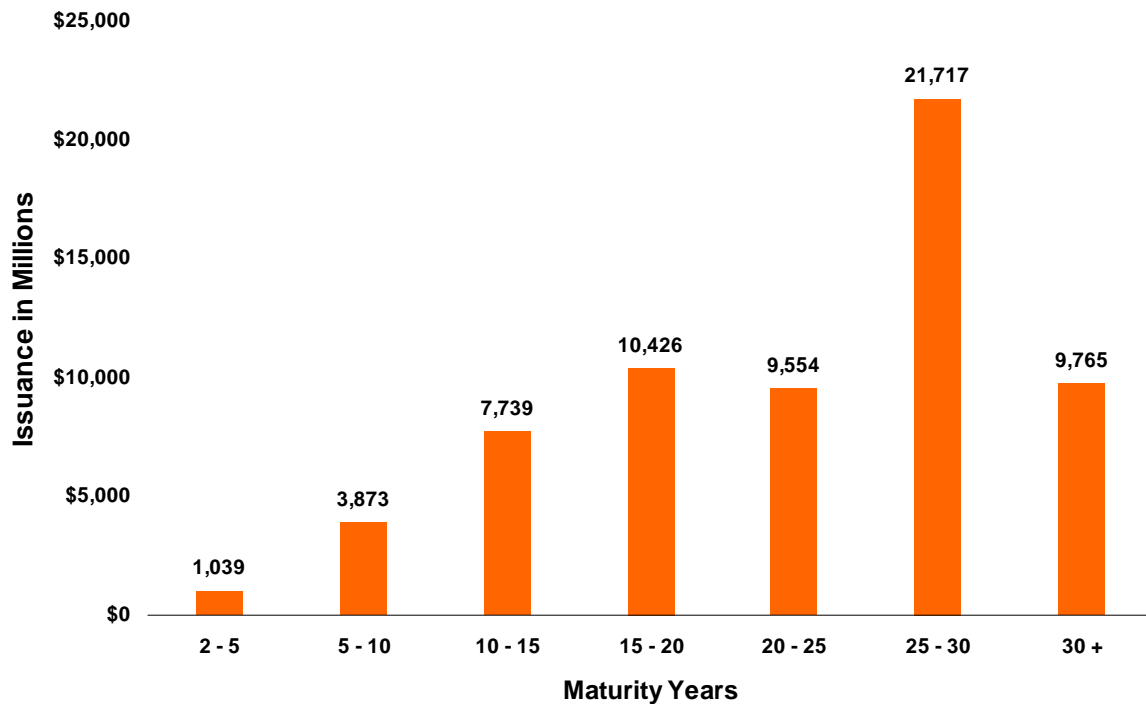
The first BABs hit the market in mid April 2009 and in the 8½ months since slightly over \$64 billion have been issued. The BAB program is very popular with both issuers and investors. The 35% direct subsidy has proved to be a boon for state and local governments and in many cases has enabled them to come to market at a far lower cost than would have possible via traditional tax exempt issuance. Investors too are finding BABs attractive and they compare favorably to other similarly rated taxable corporate issues.

Because the BAB program is currently set to expire at the end of 2010, most analysts expect BAB issuance to double next year as issuers rush to take advantage of the federal subsidy. Congress is currently considering legislation to extend and possible expand the BAB program to include non-infrastructure projects and perhaps allowing BABs to be used for refundings.

The following charts break down the various characteristics of the \$64+ billion of BABs issued in 2009:

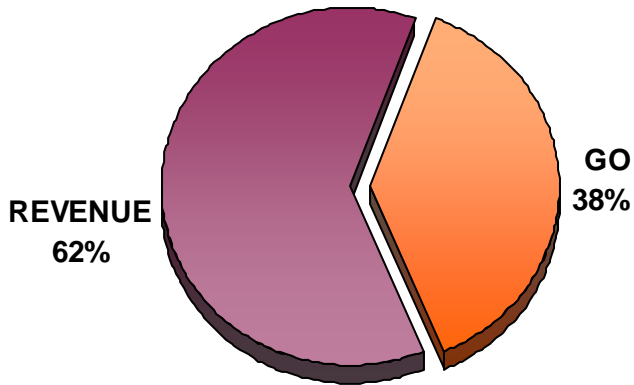
MATURITY

BAB Issuance by Maturity (\$000,000)



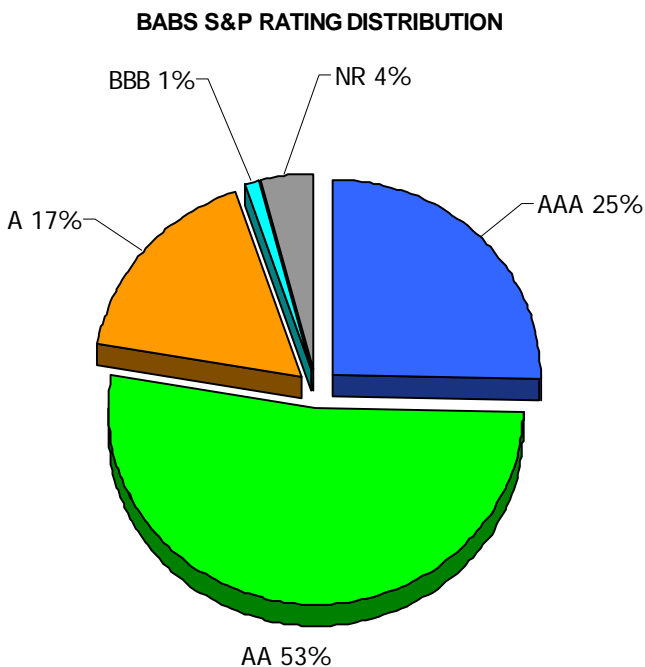
Almost 60% of BABs have been issued with maturities of 25 years or greater. Clearly, issuers see BABs as a relative inexpensive source of long term funding.

GO versus REVENUE



Given the current limitations on BAB issuance it is not surprising that the bulk of the BAB issues have been revenue bonds. The use of direct payment BAB proceeds by a municipal issuer is restricted to capital expenditures and may not be used for working capital or to facilitate refundings. BABs allow municipalities to finance a wide range of projects – such as transportation infrastructure, public safety facilities, energy projects, governmental housing, etc. BABs must meet the legal requirements for traditional tax-exempt bonds but cannot be used for private activities.

CREDIT QUALITY



In general the credit quality associated with BABs is very high. The credit features backing BABs are identical to traditional tax-exempt GOs (unlimited ad valorem property tax pledge) or tax-exempt revenue bonds (pledge on either gross or net revenues from a specified source).

Approximately 78% of all BABs issued in 2009 were rated AA or better.

In terms of the overall credit profile of BABs; municipal bonds are generally considered high-quality credits with relatively-low default rates. A Moody's study found that between 1970 and 2006, the 10-year cumulative default rate for all investment-grade municipal bonds was 0.07%, compared to 2.09% for comparably-rated corporate bonds. In cases of default, muni bond investors are likely to enjoy a higher rate of recovery of principal and interest on their investment after a default than corporate bond investors.

The average recovery rate on defaulted municipal bonds has been 68% of par, compared to 42% of par for defaulted corporate bonds. Nearly half of investors in defaulted muni bonds recovered between 75-100% of par, compared to 17% for defaulted corporate bonds.

BAB ISSUANCE BY STATE

State	\$ millions	State	\$ millions
CA	\$8,778	GA	\$769
TX	\$7,483	AZ	\$750
NY	\$6,957	IN	\$712
IL	\$4,508	IA	\$564
FL	\$2,622	SC	\$551
MA	\$2,360	MN	\$545
WA	\$2,167	LA	\$539
OH	\$2,154	CT	\$487
CO	\$1,840	NE	\$391
MO	\$1,680	OK	\$372
VA	\$1,674	TN	\$333
MD	\$1,635	AL	\$263
KY	\$1,622	DE	\$218
PA	\$1,622	MS	\$205
UT	\$1,590	AK	\$192
NV	\$1,532	SD	\$192
MI	\$1,270	NH	\$180
DC	\$1,193	HI	\$147
NJ	\$1,090	NM	\$58
KS	\$1,007	ND	\$26
WI	\$968	OR	\$26
NC	\$827	WY	\$19

As expected, larger, more populous states such as California, Texas and New York have issued the largest amount of BABs. However the fact that public entities in 44 states have issued BABs attests to their popularity among issuers.

Presumably, if the BAB program were extended, the municipal market would see steady growth in BABs so that within a few years taxable BABs would exceed traditional tax exempt issues.

BREAKDOWN OF BAB ISSUANCE IN 2009

- Total BAB issuance in 2009: \$64.3 billion
- Number of issues: 761
- Number of CUSIPS (individual securities issued): 6,580 (approx.)
- Average Coupon: 5.943%
- Average Maturity: 19.5 years
- Average Rating: AA

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