



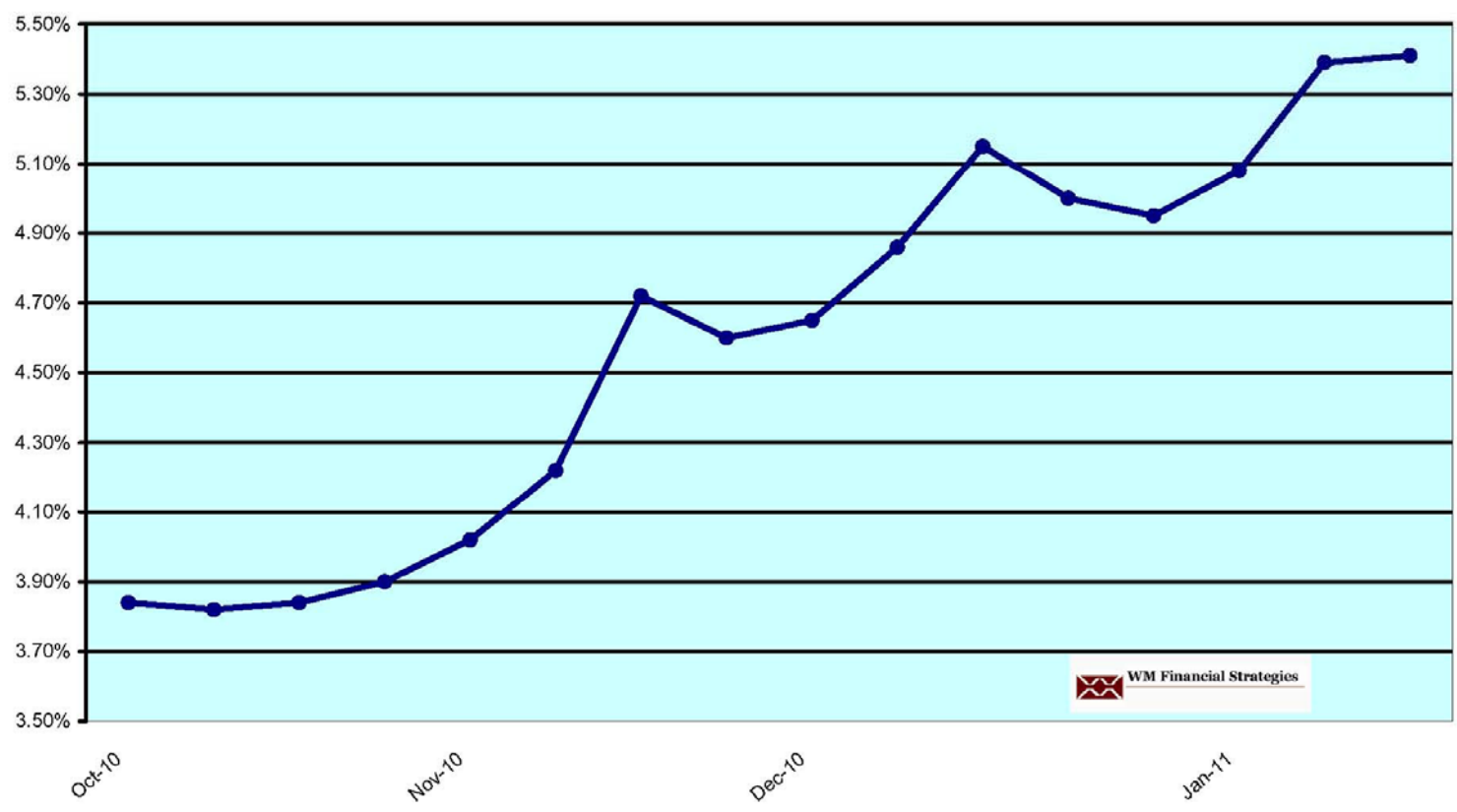
WM FINANCIAL STRATEGIES

Independent Financial Advisors

**MUNICIPAL BONDS –
REGULATORY & MARKET UPDATE**

Municipal Armageddon

THE 20-BOND INDEX
Entering 2011



WM Financial Strategies

Municipal Armageddon

**“Hundreds of Billions of Dollars”
will default**

Meredith Whitney

Failed Prediction?

A Record \$20 Billion Defaults

According to Richard Lehman,
publisher of the Distressed Debt Securities Newsletter.

Failed Prediction?

Decline in Defaults Excluding:

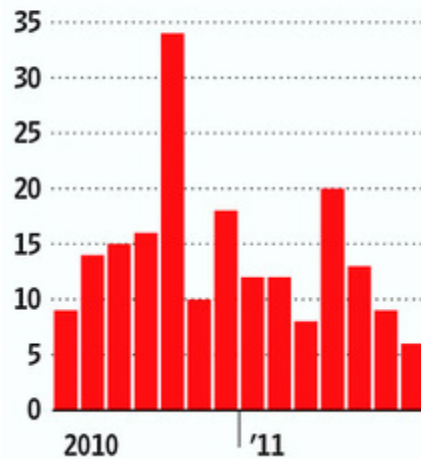
- American Airlines
- Tobacco Debt
- Land backed, health care and conduit

Rating Downgrades

The Super Downgrade Club

Painful Cuts

Municipal-bond downgrades of at least three notches, by month



Source: Municipal Market Advisors

- Super Downgrades = at least 3 rating notches
- 196 Super downgrades from June 2010 to August 2011
- Generally due to economy or lack of disclosure

Yields Plummet

- Defaults didn't materialize
- Treasury yields declined
- Issuance declined

Yields Plummet

Issuance Declined – 10 Year Low

- Negotiated sales down 36%
- Competitive sales down 18.5%
- All issues down 32%

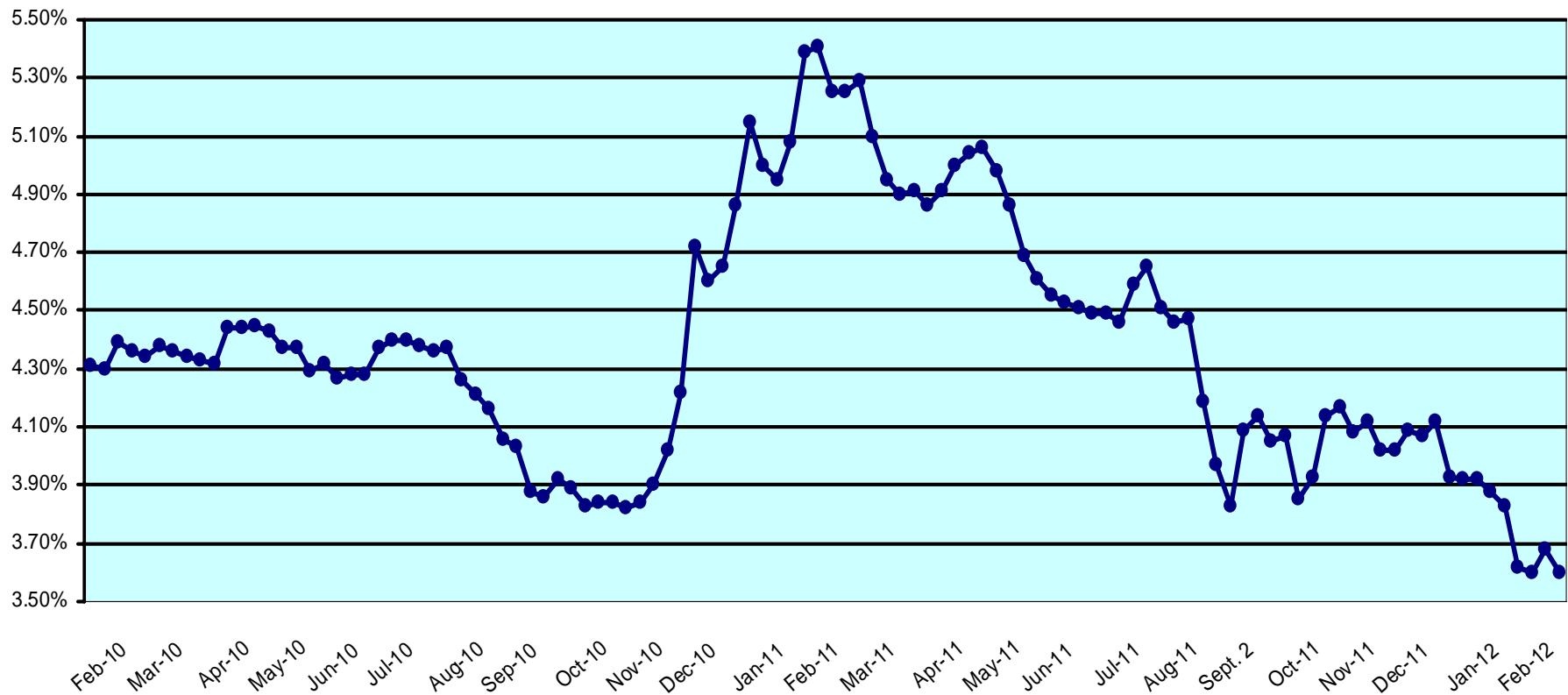
Bond Elections Pass

**Voters approved
72% of bond issues**



Yields Plummet

THE 20-BOND INDEX



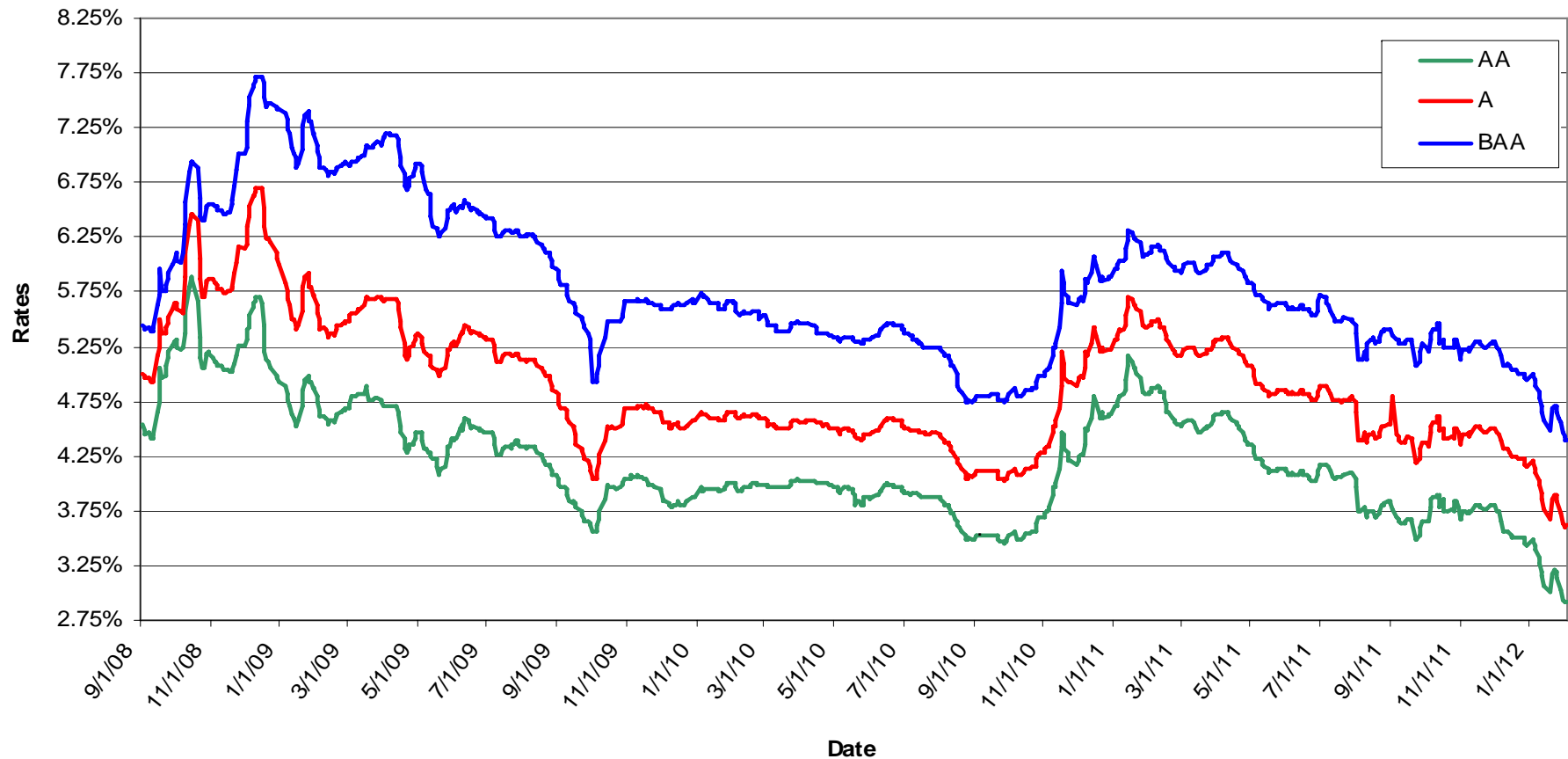
Yields Today

THE 20-BOND INDEX
LAST 24 MONTHS - BY WEEK



Credit Spreads Narrowed

**MUNICIPAL MARKET DATA INDEX
20th YEAR MATURITY BY RATING GRADE**



Regulatory Update – Dodd Frank Act

Municipal Provisions

- ⇒ GASB Funding
- ⇒ Regulates Municipal Advisors
- ⇒ New SEC Office of Municipal Securities
- ⇒ GAO Study on Municipal Disclosure
- ⇒ SEC Report on Municipal Securities

GASB

GASB Funding

- ⇒ GOA Completed a Report on Funding
- ⇒ Lack of adequate GASB funding
 - \$5.3 million loss in 2009
- ⇒ SEC to establish GASB funding
- ⇒ FINRA to impose fees on securities dealers

Municipal Advisors

Dodd-Frank Act Regulates Municipal Advisors

“A person that provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues.”

“Municipal Advisory Services”

Municipal Advisors

Who Is a Municipal Advisor?

- Individuals that provide “Municipal Advisory Services”
- Firms of Independent Financial Advisors
- Broker-dealers when serving as Financial Advisors

Municipal Advisors

Who Is NOT a Municipal Advisor?

1. A broker, dealer, or municipal securities dealer serving as an underwriter.
2. Investment advisers registered under the Investment Advisers Act of 1940.
3. Commodity trading advisors registered under the Commodity Exchange Act.
4. Attorneys offering legal advice or providing services that are of a traditional legal nature.
5. Engineers providing engineering advice.
6. Accountants that prepare audits or financial statements.

Municipal Advisors

Who May Be a Municipal Advisor?

APPOINTED OFFICIALS

SEC Office of Municipal Securities

Office to Administer Rules For Munis

- ⇒ Now Part of Division of Trading and Markets
- ⇒ No Funding for New Division

GAO Study on Disclosure

More Disclosure

SEC Staff Report

“The State of the Municipal Securities Markets”

- ⇒ Additional disclosure
- ⇒ Request for Legislation
 - Direct Regulation of Munis

Regulatory Update

MSRB's New Rules

⇒ 5 New Rules for Municipal Advisors

- Fees
- Gifts and Gratuities
- Political Contributions
- Fiduciary Duty Interpretation
- Conduct

⇒ Withdrawn

⇒ MSRB Rule G-23

MSRB Rule G-23

Financial Advisor Can't Also Serve as Underwriter

- No switching roles
- No exemption for competitive bidding
- Issuers consent does not allow switching

MSRB Rule G-23

Underwriter's Must Disclose

“The primary role of an underwriter is to purchase, or arrange for the placement of, securities in an arm’s-length commercial transaction between the issuer and the underwriter and that the underwriter has financial and other interests that differ from those of the issuer.”

Looking Ahead

- Disclosures Imposed on Issuers
- Disclosures Imposed on Underwriters
- Interest Rates
- Loss of Tax Exemption

MSRB Rule G-17 Amendment

If Approved - Underwriter's Must Disclose:

- Deal fairly with issuers and investors
- Role is to purchase and distribute securities
- Not required to act in the best interest of the issuer
- Balance fair pricing between issuer and investor

**Underwriter may not recommend
that the issuer not retain a Municipal Advisor**

MSRB Rule G-17 Amendment

If Approved - Underwriter's Must Disclose:

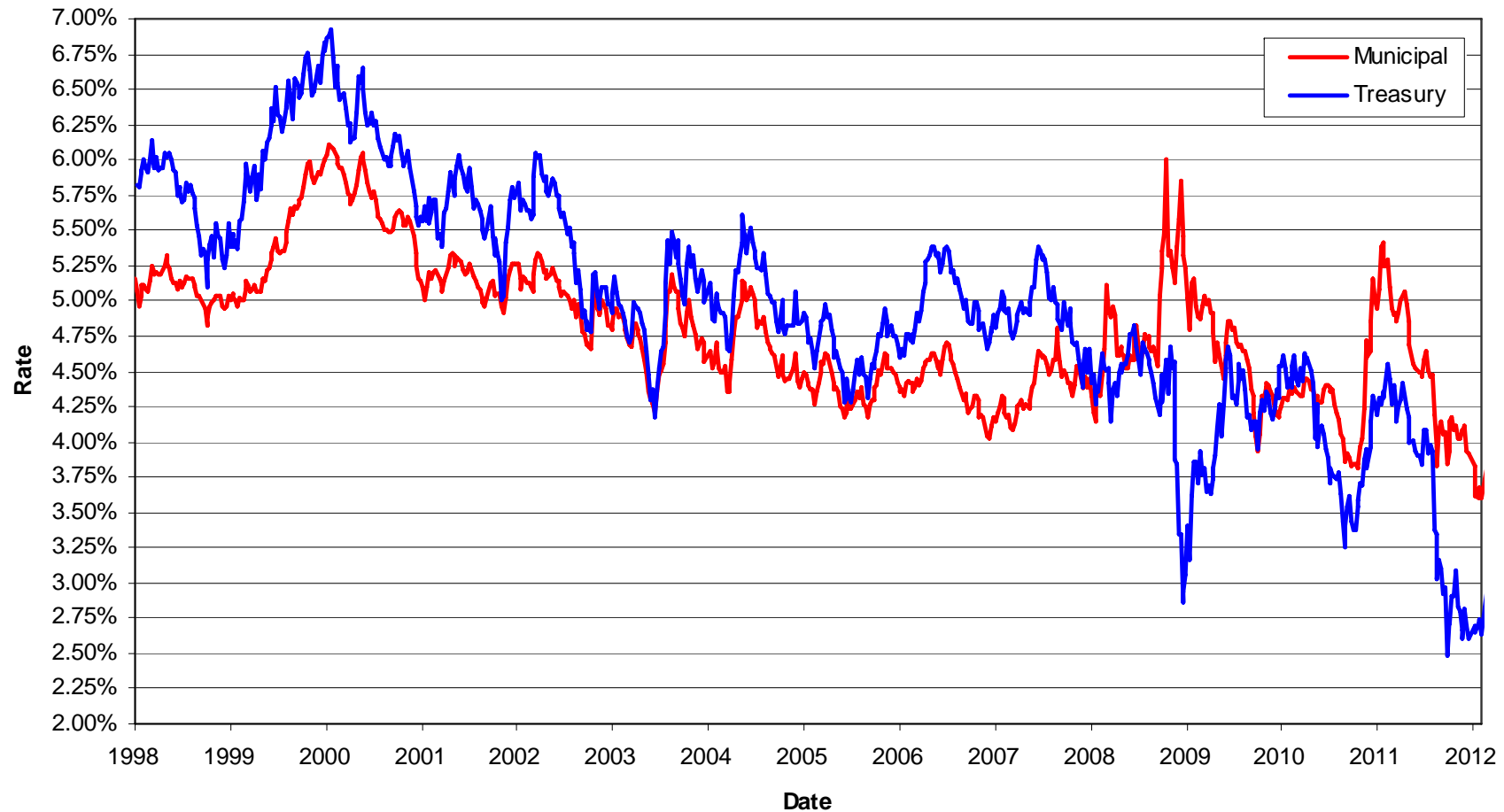
- Conflicts of Interest
- Compensation – contingent on closing
- Material aspects of the transaction – risk to issuer

Where Will Rates Go Next

On January 25 the Federal Open Market Committee “decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.”

Muni Bond Yields May Remain Low

20-BOND BUYER INDEX
COMPARED TO 20 YEAR TREASURY BONDS



Loss of Tax-Exemption

- Bipartisan Policy Center's Report
- Bowles-Simpson Report
- Obama's Job Bills
- Obama's Budget

Further Information

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