



MUNICIPAL BOND RATINGS SIMPLIFIED: Part 1

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Dick Larkin
Director of Credit Analysis
Stoever Glass & Co., Inc.
P: (862) 432-8818
E: dlarkin@stoeverglass.com

Bond ratings try to predict if bonds will be repaid principal and interest on the promised date for your bond. Municipal bonds are like certificates of deposits, which promise interest and principal on specified dates. Bond ratings are not recommendations to buy or sell. Some investors need to keep highly rated debt, but a speculative bond rating below BBB might be suitable for other investors. They are similar to credit card scores, except that they use letter symbols instead of numeric score

“AAA” ratings indicate that the rater believes the risk of non-payment is miniscule and rare. Bonds rated three categories below at the “BBB” level indicate the company’s belief that you will still be paid in full, but that certain circumstances could result in default. Ratings below the “BBB” (BB, B, CCC, CC) indicate that unless something changes in the financial operation of an entity, there are increasing chances you will not get full repayment

Ratings being upgraded or lowered can affect the price of your bonds, but they are not the only factor. Increases in general interest rates can lower the price of the bonds, but will not affect the annual interest income you get.

bond funds use ratings to help gauge whether they should redirect investments from one category to another, but generally a bond rating is not the only thing that causes reinvestment. I use them as a quick “road map” on a particular city or state, but then proceed to do my own individual analysis to determine if the bond rating is effective. Not every bond gets rated, and that is when my own individual analysis becomes paramount. The next installment discusses the process of how bonds are rated.

About the Author

RICHARD P. LARKIN, Stoever Glass & Co., Inc.

Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee.



“Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique,” said Roland Stoever of Stoever Glass.



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