



Municipal Bond Ratings Simplified: Part 2

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Bond ratings begin with a request from the issuer. The issuer must pay a fee to obtain a rating. That is why ratings are not automatic. In addition, if an issuer sells more bonds without a rating, the rating will generally be withdrawn.

The rating process is strong, but not perfect. When I was Chief Municipal Rating Officer at S&P, rating teams had two people assigned, with one senior person assigned to the rating. Only senior analysts with experience can vote; the junior analyst may make recommendations, but their vote doesn't count.

Rating committees may be as small as 3 senior analysts, but for large controversial issues, committees could expand to 12 or more senior analysts. The rating fee also depends on the amount of bonds being rated. The fee could be as small as \$2,500, but for larger issues can be higher than \$100,000. Positive ratings generally result in lower interest costs to the issuer.

Each rating company sets standards for ratings, through the company's criteria committees. These criteria have been strengthened since the debacle of 2008, when hundreds of billions of "AAA" rated bonds were suddenly downgraded to junk-bond status. But because of recalibration of municipal ratings since 2010, many ratings municipal bond ratings have been raised to reflect the low incidence of default (and rightfully so).

Let me make something perfectly clear, since I have been asked this question many times: the rating companies do not consult with each other before they determine a rating. That is a fact. But members of a rating committee may be influenced by another company's rating rationale. That is pure human nature.

The next installment will explain "Rating Outlooks" and "Rating Watches".

About the Author

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Roland Stoever founded Stoever Glass Wealth Management, Inc., in 2014. Prior to joining Stoever Glass & Co., (broker-dealer) in 1991, Mr. Stoever was employed by KVL commodities trading Gold and Crude oil futures on the floor of the New York Mercantile Exchange. Mr. Stoever's extensive career at Stoever Glass has many roles, beginning as a retail financial consultant and evolving to running the firms proprietary trading operations. In the past 25 years of trading an array of financial products he has gained vast experience into the workings of global financial markets, which he now brings to Stoever Glass Wealth Management Inc. Mr. Stoever is a graduate of New York University's Leonard Stern School of Business.

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