



## Municipal Bond Insurance: A Short History

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Dick Larkin

Director of Credit Analysis

Stoever Glass & Co., Inc.

P: (862) 432-8818

E: [dlarkin@stoeverglass.com](mailto:dlarkin@stoeverglass.com)

Valentine's Day, 2008. My first day on the job at a new company, and I'm testifying in Congress about the municipal bond insurance crisis. At the time, there were five companies rated AAA/Aaa. Within months, four folded, and one had to be restructured because of failures in securitized bonds which most believed were safe. Big mistakes and major contributors to the 2008 financial market crisis.

At the time, about 50% of municipal bonds were rated at the highest rating levels. The good news is that municipal bonds are unusually safe, so investors were still paid in full despite the failures of the bond insurers. What made that day more memorable is former NY Governor Elliott Spitzer was the first to testify, the day after his famous rendezvous with a call girl from NYC, which eventually led to his resignation.

The major point I made that day was despite the meltdown of the bond insurance companies, municipal bonds were still safe investments. That continues to be true.

There are 3 major bond insurance companies operating: Assured Guaranty, BAM (Bond Assurance Mutual), and the successor to MBIA (now called National Public Reinsurance). None are rated AAA/Aaa anymore, but they are seeing a resurgence after the 2008 crisis.

Munis still represent safe investment returns. Even after defaults in Detroit and Puerto Rico, more than 97% of muni bonds are still paid on time, and in full.

Most analysts like myself do not rely totally on the guarantees of private bond insurers; they are looked at as "backstops" in case something goes wrong. So, bond insurance gives you a second level of safety on most municipal bonds that are generically safe to start with.

## 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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