



MUNICIPAL BOND RATINGS SIMPLIFIED—PART 4

February 21, 2017

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

There are strengths and flaws in the municipal bond rating process. Rating committee votes are only counted by experienced analysts, generally with at least three years of experience. Also, minimum voting members usually number at least three; this helps insure that there is no collusion with issuers, and that ratings are independently determined.

There have been comments in the press that ratings are not current and timely, and that the market makes pricing decisions well in advance of rating agency changes. Large bond issuers usually warrant larger rating committees. The larger the rating committee means the voting process takes longer. Picture this: a jury of 5 will usually arrive at a decision much quicker than a jury of 12, because more diverse opinions and reasoning adds time to the decision making process.

Also, previous rating decisions weigh heavily for rating changes. By nature, rating committees are reluctant to overturn previous committees because the company doesn't want to look arbitrary. So the natural tendency is not to change a rating unless there are large material changes in the issuer's financial and/or economic condition.

On a positive note, financial and economic circumstances for states and cities are generally calm and stable. This is a major reason why municipal bond rating changes are slow and defaults are low, compared to the volatility of corporate bonds, where default rates are much higher. And while Detroit and Puerto Rico are garnering a great deal of negative publicity, the total amount of debt for these two rogues amounts to less than 3% of the estimated \$3.7 trillion municipal bond market.

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.



Disclosures:

This report is published by Stoever Glass & Co. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. We recommend that you obtain financial and/or tax advice as to the implications (including tax) of investing in the manner described or in any of the products mentioned herein. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to Stoever Glass & Co). All information and opinions as well as any prices indicated are current only as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of Stoever Glass & Co. as a result of using different assumptions and/or criteria. At any time, investment decisions (including whether to buy, sell or hold securities) made by Stoever Glass & Co. , its affiliates and employees may differ from or be contrary to the opinions expressed in Stoever Glass & Co. research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify.

Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. This report is for distribution only under such circumstances as may be permitted by applicable law.

The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. Stoever Glass & Co. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.