THE OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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CONNECTICUT STATE TREASURER APPLAUDS SENATOR DODD AND MOODY'S ON UNIFORM CREDIT RATING OF MUNICIPAL SECURITIES

HARTFORD – Connecticut State Treasurer Denise L. Nappier today commended Senator Christopher Dodd, Chairman of the Senate Committee on Banking, Housing and Urban Affairs, for including in the proposed financial regulatory reform bill a provision requiring the Securities and Exchange Commission to adopt a rule requiring rating agencies to rate municipal securities on the same scale as corporate debt. The section was originally included in the version of the regulatory reform bill passed by the U.S. House of Representatives and was widely supported by issuers of municipal bonds.

"The Senate bill should convince lawmakers and the credit rating agencies that this is not only good public policy but sound financial practice," Nappier said. "As chief fiscal officer for the State of Connecticut, I want to do every and anything within my power to ensure Connecticut is rated fairly within a system that does not treat public debt differently from corporate debt, especially when states' risks are considerably lower."

A single rating system will provide investors a better guide to the actual risks of default, help to level the playing field of municipal debt with corporate borrowers, and broaden the investor base for municipal debt.

On March 10th, Treasurer Nappier along with six other state treasurers from California, Florida, Maryland, North Carolina, Michigan and Pennsylvania representing $180 billion in debt under management wrote to Senator Dodd urging him to include a provision on uniform credit ratings in his regulatory reform bill. Since the March 10th letter, Oregon Treasurer Ted Wheeler has joined the treasurers in calling for a single rating system, bringing the total debt assets up to $189 billion.

Support for the provision was further evidenced by Moody's announcement yesterday that it will begin using a single credit rating scale going forward. "While Moody's announcement sends an undeniable signal of support and feasibility to the rest of the credit rating community, it also points out how important it is to have federal legislation to require all rating agencies to follow suit," Nappier said.

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March 10, 2010

The Honorable Christopher J. Dodd
Chairman
Senate Committee on Banking, Housing &
Urban Affairs
528 Hart Senate Office Building
Washington, DC 20510

The Honorable Richard C. Shelby
Ranking Member
Senate Committee on Banking, Housing &
Urban Affairs
304 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Dodd and Ranking Member Shelby:

We the undersigned public finance officials write to you today to register our support for parity in how credit rating agencies rate securities. Many of our offices are responsible for state government issuance of debt obligations and collectively represent $180 billion in debt under management.

Pending before the Senate is the issue of financial regulatory reform. When the House of Representatives in December adopted H.R. 4173, *The Wall Street Reform and Consumer Protection Act of 2009*, it contained a provision directing the Securities and Exchange Commission to adopt a rule requiring rating agencies to rate securities according to the risk that investors may not receive payments per the terms of the securities, and to apply credit ratings in a consistent manner across all types of securities. In other words, rating agencies should use a single rating scale for all types of debt.

We are proponents of a single rating scale for all types of debt, and believe that a single scale will facilitate the comparison of debt instruments across sectors. In particular, municipal securities as a class have experienced defaults at a rate much lower than corporate or asset based securities. We know that many securities rated as "AAA" turned out, in fact, to be much riskier than municipal securities that were rated much lower, and we believe that investors may be misled by the use of different rating scales for different types of securities. A single scale system will help investors diversify their investments with a better guide to the actual risks of default. We believe that investors are seeking uniformity in rating symbology so that they can more clearly evaluate investment options.

In the American Recovery and Reinvestment Act, Congress established an entirely new form of municipal bond: Build America Bonds, or "BABs." President Obama has proposed making this program permanent. BABs are taxable bonds where the issuer receives an interest rate subsidy, and thus the issuer achieves a net interest rate that can be more attractive than conventional tax-exempt bonds. More importantly, BABs allow municipal issuers to offer securities that are attractive to investors in taxable securities rather than tax exempt bonds. As a result, municipal issuers are competing directly with corporate issuers in the taxable fixed income markets both here and abroad. Because of the apples-to-apples competition of municipal issuers with corporate issuers, we think it is even more important that rating agencies offer an apples-to-apples comparison of the actual risk of default.

For municipal issuers in particular, we believe that a single scale will help level the playing field with corporate borrowers and broaden the investor base for our offerings. On October 26, 2009,

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ten state and local government organizations sent a letter of support for a single scale to The Honorable Paul Kanjorski, Chairman, Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises. The National Association of State Treasurers (NAST) also approved a resolution calling for a single rating scale on August 20, 2008 and a letter of support on behalf of NAST was sent to Chairman Dodd on November 17, 2009. Both letters and the resolution are attached.

As the Senate takes up this issue, we would appreciate any efforts you could make to retain these elements of H.R. 4173 in the form adopted by the House.

Sincerely,

Denise L. Nappier
Treasurer
State of Connecticut

Bill Lockyer
Treasurer
State of California

Alex Sink
Chief Financial Officer
State of Florida

Nancy K. Kopp
Treasurer
State of Maryland

Robert J. Kleine
Treasurer
State of Michigan

Janet Cowell
Treasurer
State of North Carolina

Rob McCord
Treasurer
State of Pennsylvania