

Airports Council International

The Wild and Crazy Credit Markets

A Brief Review

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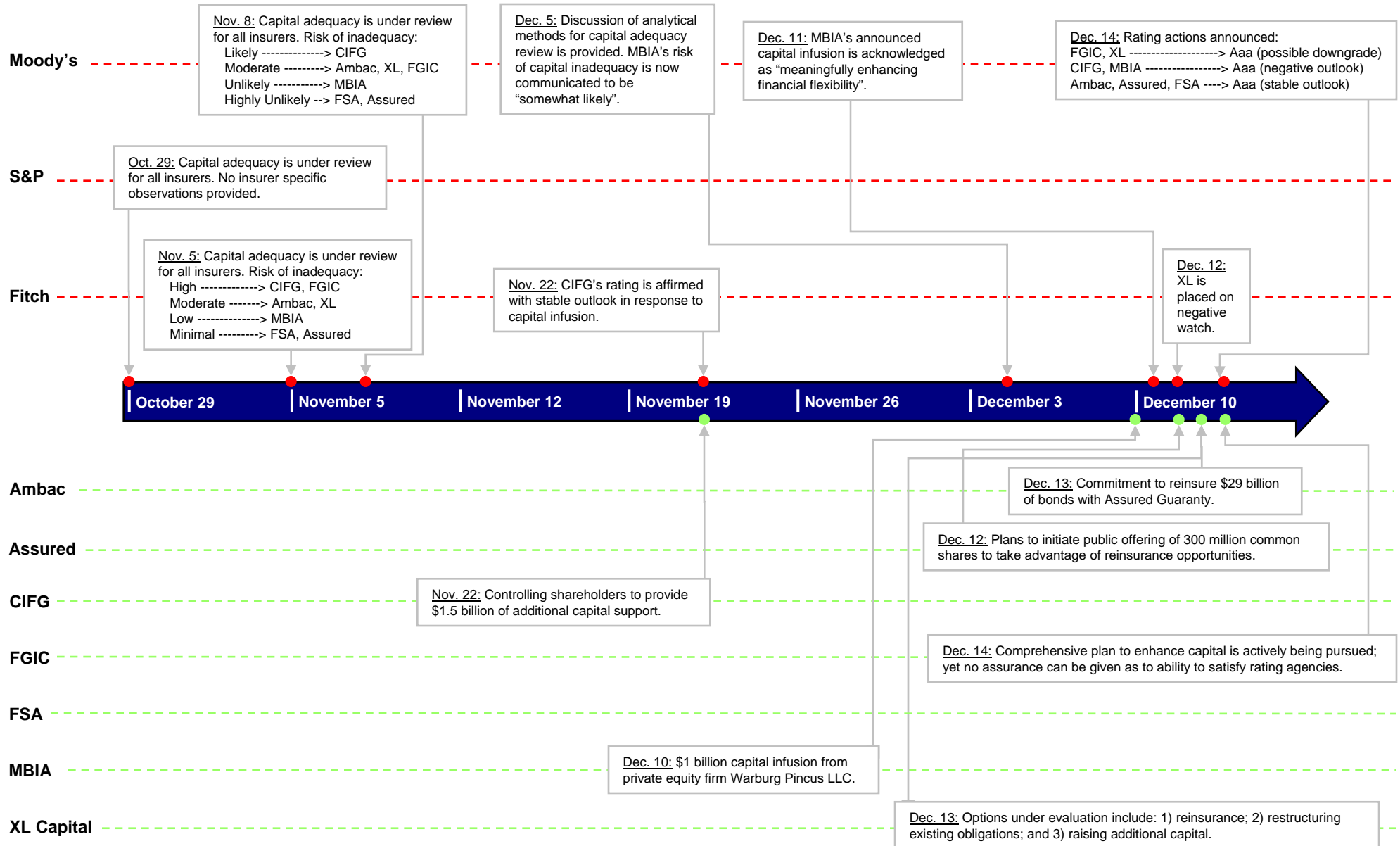
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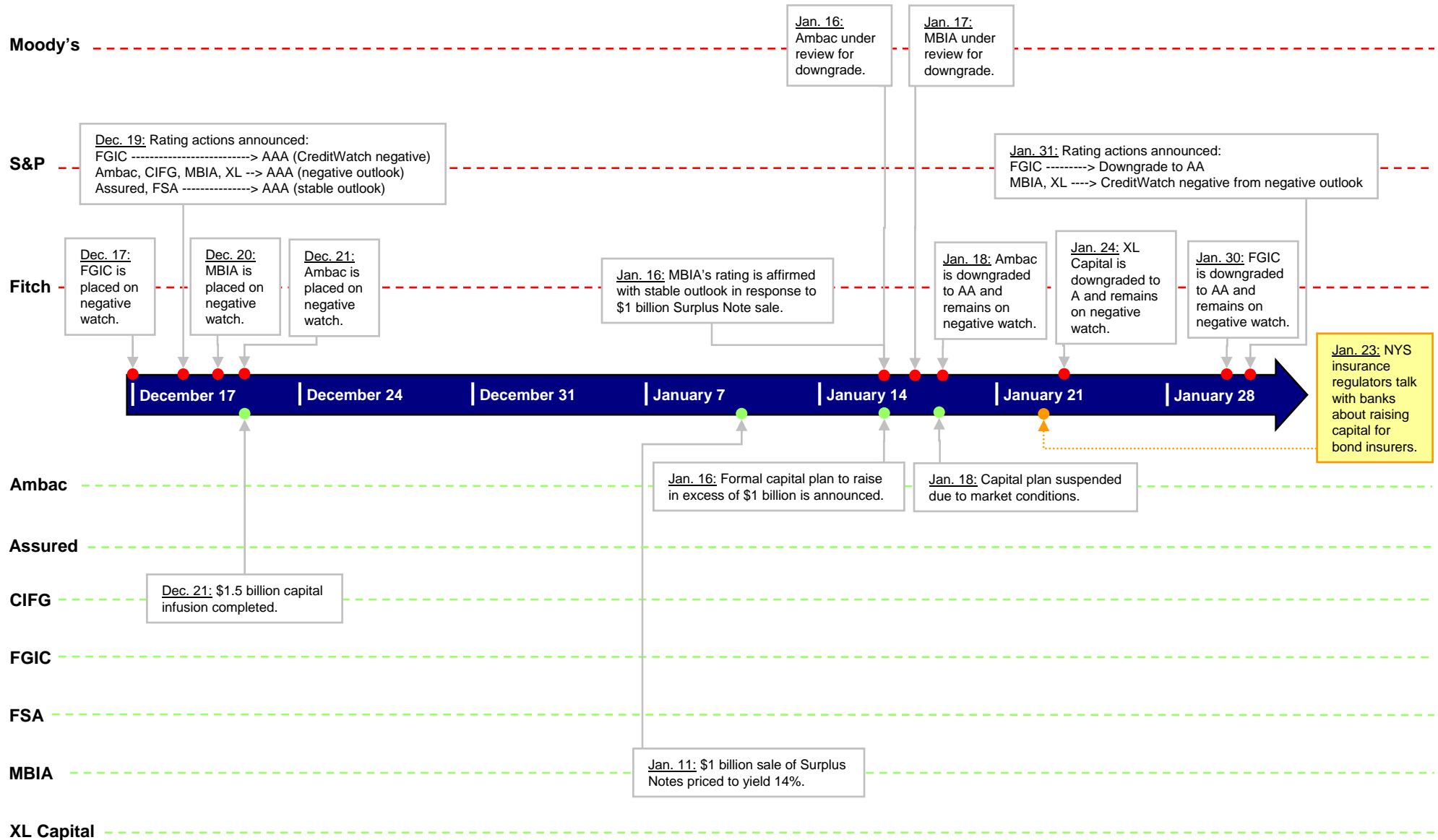
Municipal Bond Insurers and the Credit Crisis

Timeline of Developments (1 of 4)



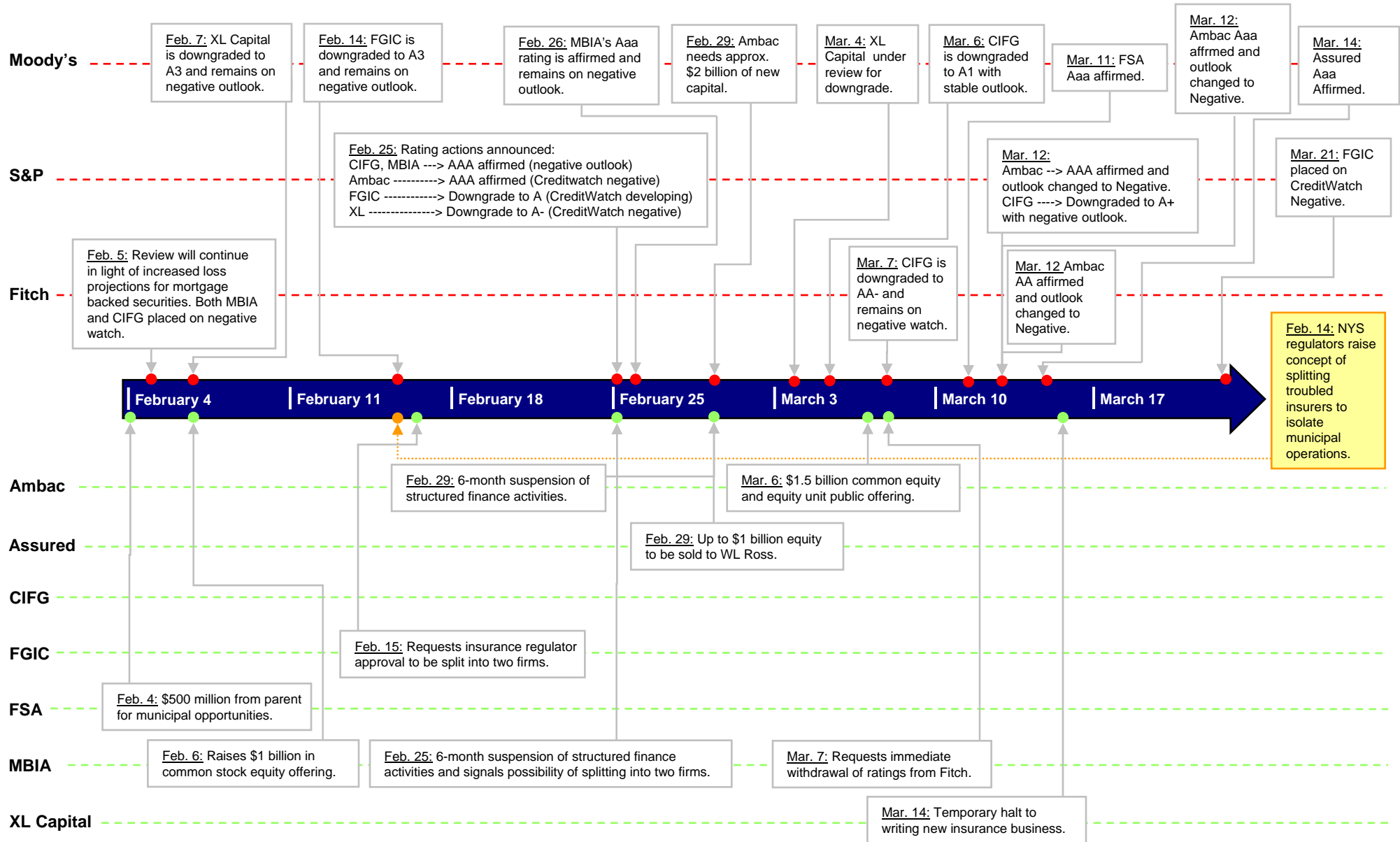
Municipal Bond Insurers and the Credit Crisis

Timeline of Developments (2 of 4)



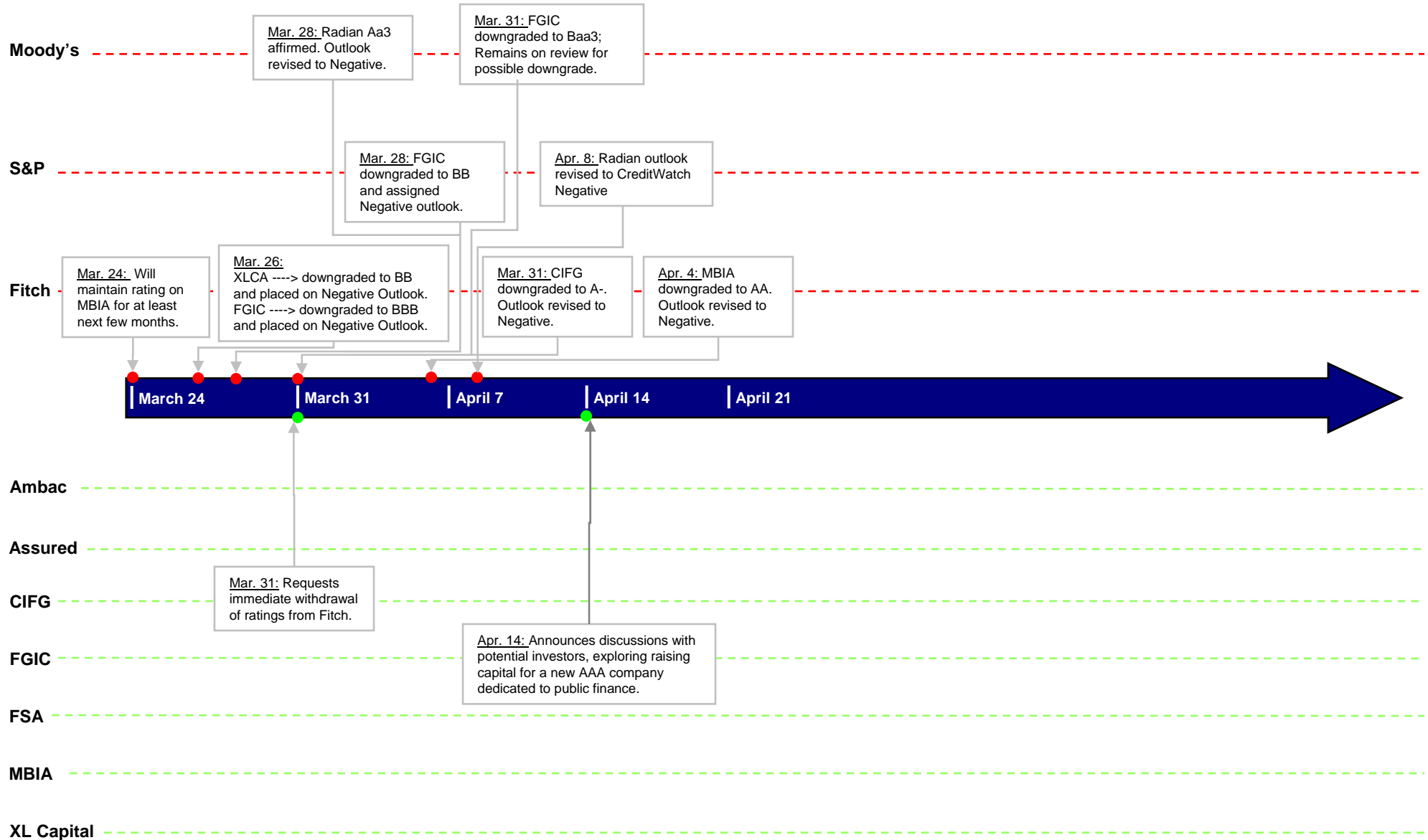
Municipal Bond Insurers and the Credit Crisis

Timeline of Developments (3 of 4)



Municipal Bond Insurers and the Credit Crisis

Timeline of Developments (4 of 4)



Municipal Bond Insurers and the Credit Crisis

Current Rating Status

MUNICIPAL BOND INSURERS ¹			
Current Rating Status (as of 4/21/08 at 4:00 pm)			
	Moody's	Standard & Poor's	Fitch
Ambac	Aaa Affirmed 3/12/08 with Negative Outlook	AAA Affirmed 3/12/08 with Negative Outlook	Downgraded AA Affirmed 3/12/08 with Negative Outlook
Assured Guaranty	Stable Outlook (Affirmed 3/14/08)	Stable Outlook	Stable Outlook
CIFG	Downgraded 3/6/08 to A1 with Stable Outlook.	Downgraded 3/12/08 to A+ . Remains Negative Outlook	Downgraded 3/31/08 to A- . Outlook revised to Negative.
FGIC	Downgraded 3/31/08 to Baa3 . Remains Under Review for Downgrade.	Downgraded 3/28/08 to BB from A. Negative Outlook	Downgraded 3/26/08 to BBB with Negative Outlook
FSA	Stable Outlook (Affirmed 3/11/08)	Stable Outlook	Stable Outlook (Affirmed 1/24/08)
MBIA	Aaa Affirmed 2/26/08. Remains on Negative Outlook	AAA Affirmed 2/25/08 Remains Negative Outlook	Downgraded 4/04/08 to AA. Revised to Negative Outlook. <i>3/7/08: MBIA has requested immediate ratings withdrawal</i>
XL Capital	Downgraded 2/7/08 to A3 . Placed Under Review for Downgrade on 3/4/08.	Downgraded 2/25/08 to A- . Remains CreditWatch Negative	Downgraded 3/26/08 to BB with Negative Outlook
Radian Asset	Aa3 . Outlook revised to Negative on 3/28/08	AA. Outlook revised to CreditWatch Negative on 4/08/08	Downgraded 9/5/07 to A+ . Outlook Evolving
ACA	NR	Downgraded 12/19/07 to CCC . CreditWatch Developing	NR

1. All insurers are rated Aaa/AAA/AAA unless otherwise noted.

Consequences for Municipal Issuers

Auction Rate Market

- ◆ Increasing interest rates on auction rate securities
 - November (2007): 7 Day averaged 3.39%
 - January (2008): 7 Day averaged 3.90%
 - March (2008): 7 Day averaged 6.73%

- ◆ Dealers unable or unwilling to support auctions
 - Failure rate is important for support

- ◆ Highly publicized failed auctions
 - Port Authority New York / NJ
 - Stanford University
 - State of Mississippi

- ◆ Failed auctions included strong underlying issuers and “good” bond insurers

- ◆ Future of auction products highly doubtful as liquidity is called into question
 - 7 Day auction index was recently 4.32%

Consequences for Municipal Issuers

Variable Rate Demand Bonds

- ◆ Dislocation hits VRDB bond market

4/24/08		
Tier	Yield	Spread to BMA
7-Day GM	2.45	0.02
7-Day AMT	2.55	0.12
FSA / Assured	2.45	0.02
AMBAC	3.10	0.67
FGIC	6.00	3.57
MBIA	3.10	0.67
XLCA	6.00	3.57
CIFG	6.00	3.57

- ◆ Widespread “put” of certain insured bonds
 - Availability of liquidity tied to certain insurers

Consequences for Municipal Issuers

Variable Rate Demand Bonds

- ◆ Failed remarketings
 - Some dealers choosing not to hold VRDB's in inventory
 - Smaller firms at first
 - Remarketing at any price (10% levels)
 - Notices sent to Liquidity Providers

- ◆ Banks holding bonds
 - Taxable rates although sometimes lower than remarketed rates
 - Ability to terminate facility and accelerate repayment with notice if insurer falls below AA
 - Ability to terminate facility without notice if insurer falls below investment grade

Consequences for Municipal Issuers

Reaction of LOC Banks

- ◆ Tighter credit standards and higher prices
- ◆ Banks not responding to competitive solicitations and need more processing time to commit
- ◆ Some Banks requiring approval of remarketing agents
- ◆ Bank rates being set at the maximum rate on the bonds
- ◆ Initial terms are being shortened
- ◆ Will be more difficult to complete insured floaters in the future

Consequences for Municipal Issuers

Market Impact

- ◆ Interest rate swaps no longer provide effective hedge
 - Both SIFMA/BMA and LIBOR – based swaps experience significant basis risk

- ◆ Insured swaps may have collateral posting termination events
 - Downgrade (or non-performance) of bond insurer

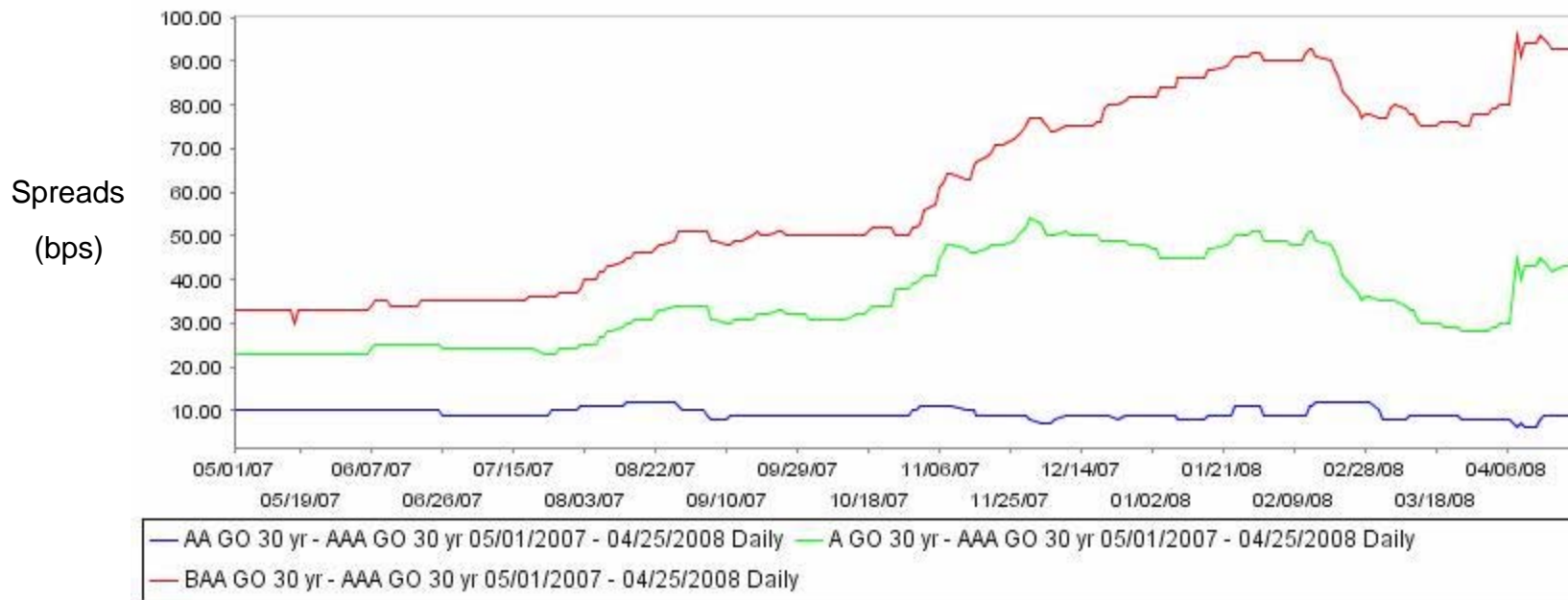
- ◆ Issuer rights to terminate the swap
 - Downgrade of the counterparty

- ◆ Cost of funds swaps may convert to an index if bonds are put to liquidity bank

Consequences for Municipal Issuers

Credit Spreads Have Widened

Market Pricing Levels



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