

The Market Continues to Evolve

Credit Enhancement

Insurance, which was an inexpensive way to add a AAA/Aaa rating to an investment grade issue, has fallen into hard times. Of the six former AAA/Aaa insurers, none exist today as AAA/Aaa insurers and only one of the six is even AA/Aa grade. In 2007 40% of our Official Statement (OS) issuers were insured (either with or without an underlying rating). Through December of 2010, this has fallen to 7%. Conversely, in 2007, 34% of our OS issuers were rated without insurance while in 2010 this rose to 85%.

This reliance on the credit strength of the issuer versus the credit strength of the insurer is probably an irreversible trend. Certainly cheap insurance is not expected to rebound any time soon.

Technology

Bidding through the 1980's was primarily conducted by runners from banks hand delivering a bid to our office and waiting for the results of the opening of the envelopes. In 2010, 93% of our competitive OS sales were bid in a 15 minute bidding window utilizing our auction site (www.SpeerAuction.com). Sixty seven percent of those electronic auctions were bid as closed (blind) auctions and 33% as open (rank known) auctions which permits a bidder to try to improve their bid knowing their rank, but not knowing by how much they lead or trail. About 20% of open auctions result in bid improvements that create savings for the issuer.

Number of Banks Bidding

Community banks are getting purchased by bigger banks, and becoming branches, while weakened banks who were heavily leveraged with real estate loans are being acquired as well by banks with more resources. Even fairly large commercial or investment banks are being acquired by even bigger banks thereby reducing the numbers of bidders. Unfortunately many of the acquiring banks are not as "community" focused and while they seek the deposits of local governments, may not be a bidder on small and short bonds being issued, let alone larger and longer issues.

While selected issues still may see six or more bidders, there are generally fewer bidders.



WE HAVE GONE GREEN

Visit our website www.speerfinancial.com for newsletters, training seminars, and to join our email list.

SUITE 4100 * 1 NORTH LASALLE STREET * CHICAGO, ILLINOIS 60602 * (312) 346-3700 * FAX (312) 346-8833
SUITE 608 * 531 COMMERCIAL STREET * WATERLOO, IOWA 50701 (319) 291-2077 * FAX (319) 291-8628