



REGIONAL  
BOND DEALERS  
ASSOCIATION

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June 30, 2008

Ms. Lisa Washburn  
Managing Director, Public Finance Group  
Moody's Investors Service  
7 World Trade Center at 250 Greenwich Street  
New York, NY 10007

Dear Ms. Washburn,

The Regional Bond Dealers Association (RBDA) appreciates the opportunity to comment on Moody's Global Credit Research Announcement of June 12, 2008 regarding the U.S. public finance rating scale. The RBDA is an organization of regional securities firms and banks that participate in the bond markets. Many of our members are active in the municipal bond market as underwriters, dealers and financial advisors.

The RBDA supports Moody's proposal to begin rating all municipal debt on a global rating scale. We believe that this approach is in the long-term best interests of both issuers and investors, that it will lower financing costs for state and local governments, and that it will reduce confusion in the market and better enable investors to compare the credit risk of municipal debt with that of other debt products.

From an investor's perspective, the paramount issues associated with credit risk on any debt instrument are the risk of default and the risk of financial loss associated with default. All other factors that feed into the bond rating—the quality of the revenue source dedicated to debt service, the overall financial performance of the issuer, the health of the economy in which the issuer operates, the quality of the issuer's management, etc.—in the end distill down to default and loss risk. By that standard, as you know, municipal bonds have historically performed extraordinarily well. We expect that when Moody's begins rating municipals on the global scale, a large number of bond issues will fall into the highest investment-grade rating categories.

That could present a challenge for market participants in distinguishing the relative credit quality of issues with overall low risk of default and loss. It would be useful to be able to compare qualitative and analytical factors among issues within the same rating category, especially if a large number of issues end up being highly rated. Based on Moody's municipal-global scale ratings "map,"<sup>1</sup> it is likely, for example, that most or all state general obligation (G.O.) bonds would be rated "Aaa" on Moody's global scale. A large minority of local G.O., water/sewer,

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<sup>1</sup> Moody's Investors Service, "The U.S. Municipal Bond Rating Scale: Mapping to the Global Rating Scale And Assigning Global Scale Ratings to Municipal Obligations," March 2007.

state revolving fund, state lease obligation and special tax bonds would likely be rated “Aaa” and almost all would be rated at least “Aa.” With such a large portion of the market clustered in the highest rating categories, market participants will need to find ways to distinguish among similarly rated credits. This is certainly achievable. It is currently the case in the corporate bond market, for example, that similarly rated issuers trade at different prices based on such factors as industry, company performance, and others, and similar pricing would likely occur in the municipal market. However, the challenge in the municipal market is magnified by the much larger number of distinct issuers and issues than in the corporate market and by the much smaller average issue size than in other sectors of the debt markets. Any qualitative or analytical information Moody’s might provide that could assist market participants in evaluating differences in credit risk within rating categories would be welcome. On the other it would defeat much of the purpose of moving municipals to the global scale if new rating designations were devised that simply replaced the current municipal rating scale with some other distinctions not based on the global scale.

Notwithstanding those challenges, we maintain that moving municipal bond ratings to the global scale is the best approach to evaluating credits based on the factors that matter most: default and loss risk. We again appreciate the opportunity to comment on this important question, and we would be happy to provide any additional details or perspective on our views.

Sincerely,

/s/

Michael Decker  
Co-Chief Executive Officer

/s/

Mike Nicholas  
Co-Chief Executive Officer