March 8, 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. 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, 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

cc: The Honorable Tim Johnson, United States Senate
The Honorable Jack Reed, United States Senate
The Honorable Charles E. Schumer, United States Senate
The Honorable Evan Bayh, United States Senate
The Honorable Robert Menendez, United States Senate
The Honorable Daniel K. Akaka, United States Senate
The Honorable Sherrod Brown, United States Senate
The Honorable Jon Tester, United States Senate
The Honorable Herb Kohl, United States Senate
The Honorable Mark Warner, United States Senate
The Honorable Jeff Merkley, United States Senate
The Honorable Michael Bennet, United States Senate
The Honorable Robert F. Bennett, United States Senate
The Honorable Jim Bunning, United States Senate
The Honorable Mike Crapo, United States Senate
The Honorable Bob Corker, United States Senate
The Honorable Jim DeMint, United States Senate
The Honorable David Vitter, United States Senate
The Honorable Mike Johanns, United States Senate
The Honorable Kay Bailey Hutchison, United States Senate
The Honorable Judd Gregg, United States Senate

National Governors Association
Government Finance Officers Association
International City/County Management Association
National Association of Counties
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National League of Cities
U.S. Conference of Mayors
American Public Power Association
Council of Infrastructure Financing Authorities

October 26, 2009

The Honorable Paul Kanjorski
Chairman, Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Kanjorski:

The organizations listed above, representing state and local governments across the United States, wish to convey our support for the *Accountability and Transparency in Rating Agencies Act*.

It is important to state and local governments as well as to investors, for the credit rating agencies to be clear on the methodologies they use when rating securities, and also to provide investors with an apple-to-apple comparison of various securities. The current system where different scales are used, presents investors with a confusing and incomplete picture when comparing municipal securities to corporate securities. Although governmental bonds have a far lower default rate and a much higher repayment rate than their corporate counterparts, the current dual-ratings system generally dampens municipal ratings unfairly. This legislation would rectify this problem, by benefitting municipal bond issuers with better access to the credit markets and allowing for stronger interest among investors to purchase municipal securities, which would likely lead to lower borrowing costs.

State and local governments are still adjusting to changes in the credit markets, while the demands to provide important infrastructure and services to their citizens have not diminished. The *Accountability and Transparency in Rating Agencies Act* will not only give investors stronger information about securities, it should also give state and local governments better access to credit in order to build roads, schools, public buildings, parks, and other essential state and local projects that are important to their communities and will help create jobs.

Thank you again for your continued leadership on matters important to state and local governments and the municipal bond market.

Sincerely,

National Governors Association, David Parkhurst, 202-624-5328
Government Finance Officers Association, Susan Gaffney, 202-393-8468
International City/County Management Association, Elizabeth Kellar, 202-962-3611
National Association of Counties, Stephen Traylor, 202-942-4254
National Assn. of State Auditors, Comptrollers & Treasurers, Cornelia Chebinou, 202-624-5451
National Association of State Treasurers, Jim Currie, 202-624-8595
National League of Cities, Lars Etzkorn, 202-626-3173
U.S. Conference of Mayors, Larry Jones, 202-861-6709
American Public Power Association, Amy Hille, 202-467-2929
Council of Infrastructure Financing Authorities, Rick Farrell, 202-547-1866

cc: The Honorable Barney Frank

NATIONAL ASSOCIATION OF
STATE TREASURERS

RESOLUTION

Resolution of the National Association of State Treasurers on Rating Agency Reform and Preserving the Tower Amendment

WHEREAS, State governments and other levels of government rely on the issuance of tax-exempt bonds to finance the construction of critically needed infrastructure; and

WHEREAS, Bond ratings have a direct impact on the interest rates at which governments can issue their bonds, and therefore the debt service their taxpayers must support; and

WHEREAS, Three rating agencies – Fitch, Moody's and Standard & Poor's – assign the great majority of ratings used in the municipal bond market and, therefore, their rating methodologies play an important role in determining the cost to taxpayers of investing in infrastructure; and

WHEREAS, Because the three rating agencies have a profound impact on the municipal bond market, there is an important public purpose in ensuring that bonds are rated fairly and appropriately; and

WHEREAS, Both Moody's and Fitch acknowledge they have applied a stricter rating standard to the rating of municipal bonds compared to the rating of corporate bonds; and

WHEREAS, The primary obligation of an issuer of bonds is to pay the debt service on the bonds on time and in full; and

WHEREAS, The National Association of State Treasurers adopted a resolution on September 18, 2007 entitled "Opposing Amendment or Repeal of the Tower Amendment" which opposes the extension of federal disclosure laws to state and local government issuers; and

WHEREAS, The House Financial Services Committee is scheduled to hold a hearing on September 11, 2008 on disclosure requirements in municipal bond offerings that could consider the amendment or repeal of the Tower Amendment;

NOW, THEREFORE BE IT RESOLVED, that the National Association of State Treasurers acknowledges the recent dialogue rating agencies have conducted with state treasurers and other issuers in this regard and recommends that: (1) rating agencies should utilize a single rating scale for all debt instruments such that a rating applied to a municipal bond indicates the same credit risk as that same rating applied to corporate bonds, while also recognizing the need for relative ratings amongst municipal issuers; and (2) ratings should measure the ability of an issuer to meet its obligation to investors as promised in the bond documents, such obligation primarily being to pay debt service on time and in full.

NOW BE IT FURTHER RESOLVED, that the National Association of State Treasurers urges the House Financial Services Committee and the Congress not to take any action that would preempt state and local finance authority and state oversight of the debt issuance process through revision or repeal of the Tower Amendment or enactment of legislation to subject state and local government issuers to federal disclosure laws.

Approved this 20th Day of August, 2008 by
the National Association of State Treasurers

Hon. Lynn Jenkins
NAST President
Kansas State Treasurer

NATIONAL ASSOCIATION OF STATE TREASURERS

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Jeb Spaulding, Vt.

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Secretariat
The Council of
State Governments

November 17, 2009

Senator Christopher Dodd
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing to you on behalf of the National Association of State Treasurers (NAST), the organization that represents the treasurers and chief financial officers of the fifty states, the District of Columbia, and Puerto Rico. We are asking you to add language to your bill on Financial Regulatory Reform that addresses the problem caused when credit ratings agencies do not take fully into consideration in their ratings the question of whether a securities issuer is likely to forfeit on the issue or otherwise not to be able to fulfill the terms of the issue.

Bond ratings have a direct impact on the interest rates at which governments can issue their bonds to finance the construction of critically-need infrastructure, and the ratings given to these bonds by the major credit ratings agencies play a large role in determining the cost that taxpayers assume when their governments invest in infrastructure. Both Moody's and Fitch, two of the largest of the ratings agencies, have acknowledged that they have applied a stricter standard to the ratings of municipal bonds than they have to corporate bonds, and we do not believe that such a practice is appropriate. We believe that ratings applied to municipal bonds should indicate the same risk as the identical rating applied to a corporate bond, while also recognizing the need for relative ratings among municipal issuers. We further believe that ratings should measure the ability of an issuer to meet its obligation to investors as promised in the bond documents, such obligation primarily being to pay its debt service on time and in full.

I therefore ask that you consider the attached language as you modify your bill. If you have any questions, please do not hesitate to contact me or Jim Currie, NAST Director of Federal Relations, at either 202-624-8592 or jcurrie@csg.org.

Sincerely,

Jeb Spaulding

Jeb Spaulding
Vermont State Treasurer and
President, National Association of State Treasurers

Amendment Language on Credit Ratings Agencies
National Association of State Treasurers (NAST)
Point of Contact: Jim Currie, Director of Federal Relations, NAST 202 624-8592;
jcurrie@csg.org

3. Include a Provision for Uniform Credit Ratings; Section 931, r,

(r) Credit Ratings Methodologies

(new #1) To require that each nationally recognized statistical rating organization establish, maintain and enforce written policies and procedures reasonably designed to –

(A) assess the risk that investors in securities and money market instruments may not receive payment in accordance with the terms of such securities and instruments;
(B) define clearly any credit rating symbol used by that organization, and
(C) apply such credit rating symbol in a consistent manner for all securities and money market instruments.

Make subsequent changes to numbering for section (r).