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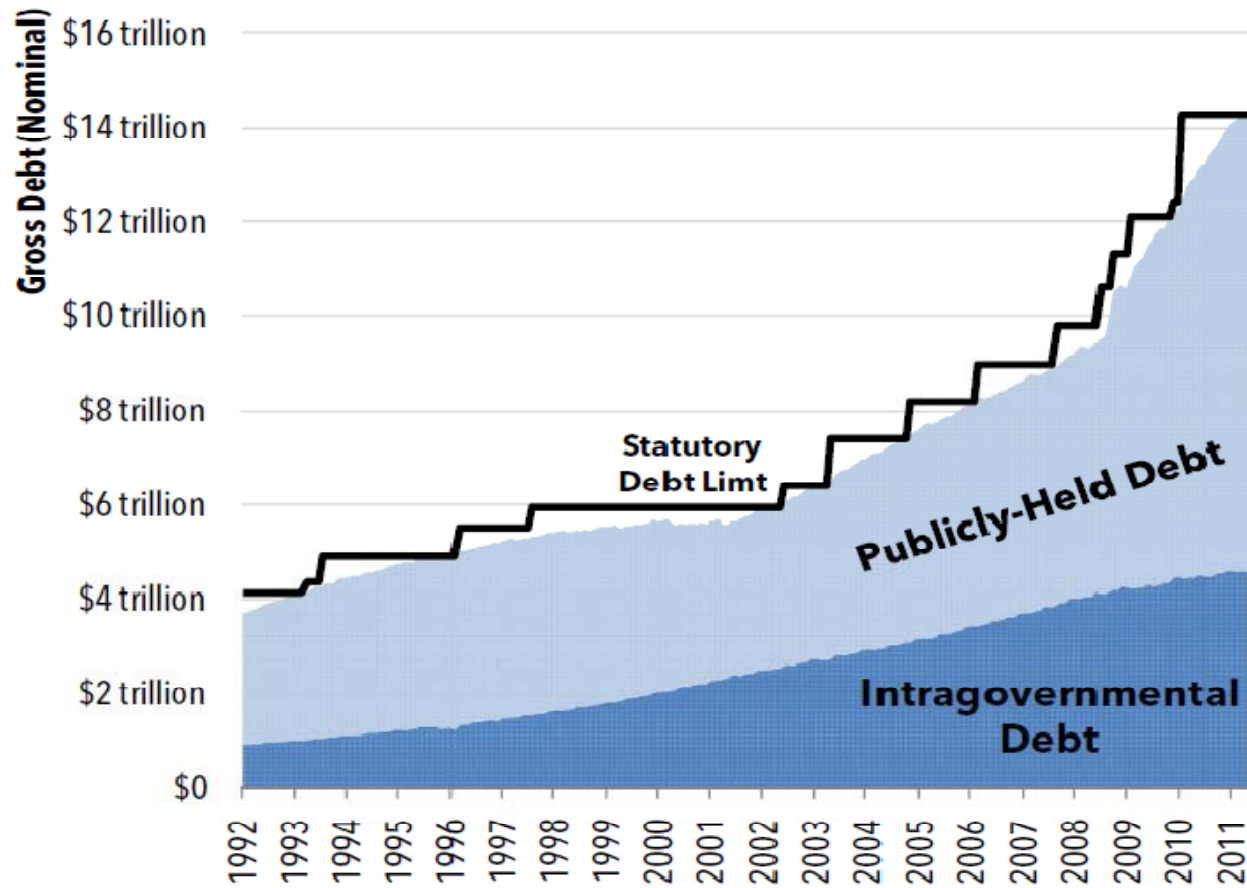
Municipal Market Update:
Market Data and Trends

October 28, 2011

Four Critical Themes for the Balance of 2011 & 2012:

- Municipal Issuers Face Headline and Credit Risks Garnering Increased State and Federal Regulatory Interest Amid Market Volatility, and Ratings Ambiguity.
- Municipal Debt Burdens Reduce Issuance and Increases Illiquidity along with Poor Price Discovery Prompting Scrutiny of Evaluation Processes.
- State Bankruptcy Discussion; Issuers' Ability to Sustain Fiscal Discipline and Meet Increasing Disclosure Requirements, including Pension Obligations
-Defend the Value of the Tax-Exemption.

U.S. Gross Debt and the Statutory Debt Limit, 1992—2011

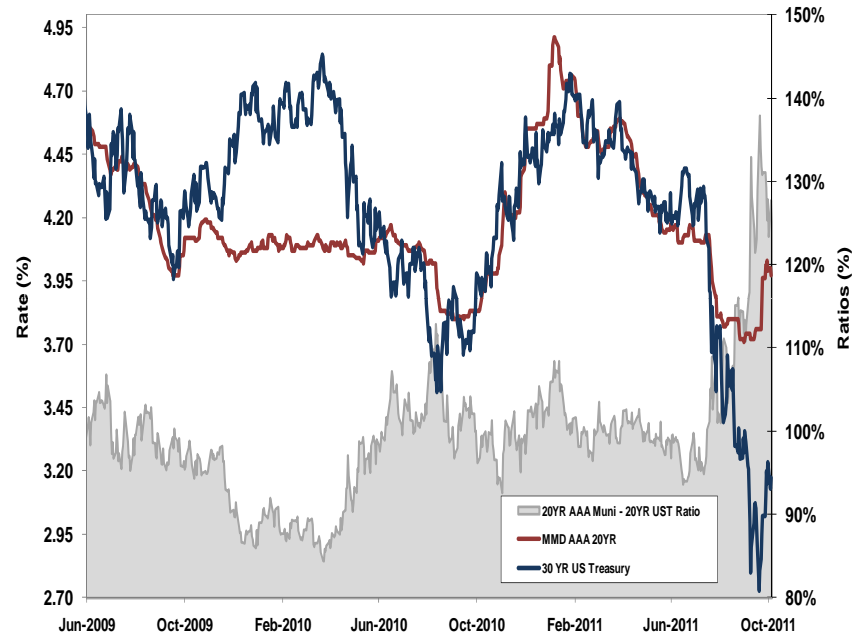


SOURCE: Pew analysis of U.S. Treasury data.

Municipal Market Overview

- 2010 - Municipal investors were confronted with bold headlines challenging the safety of the sector, while Meredith Whitney's foray into the municipal market amplified investor concerns of a potential sub-prime" crisis in the public sector. 2011 municipal volume not on track to beat 2010 record.
- National League of Cities offered a more sobering report emphasizing the prolonged decline in property taxes
- Through the end of 2010 into 2011 excessive municipal weakness, due to the illiquid conditions, the limited capital in the dealer community which was insufficient to provide adequate liquidity and context of adverse credit perceptions, sustained ratios above 100% across the yield curve.

Historical Rates 20 Year AAA Muni - 30 Year US Treasury
20 Year Muni / 30 Year US Treasury Ratio



Structured Products Group

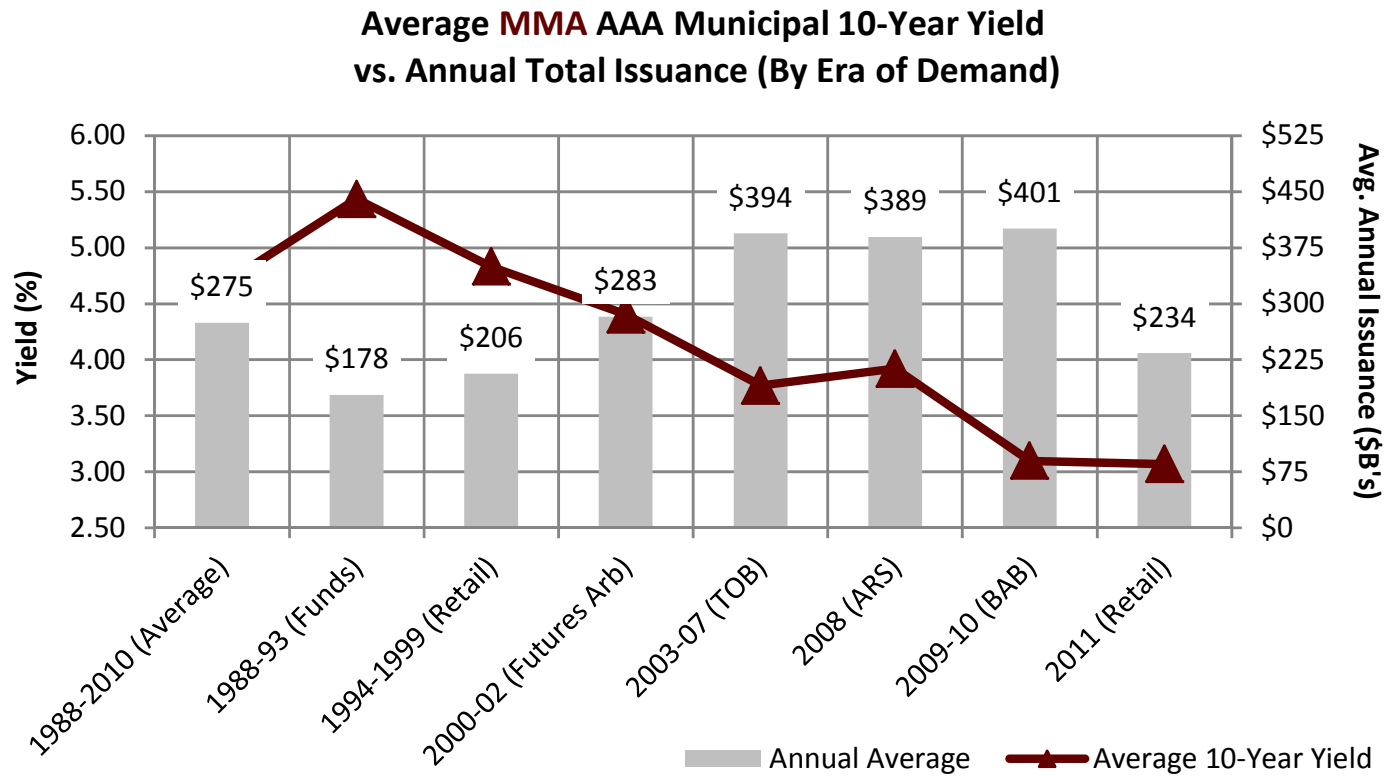
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Mortgage Bankers Association survey, for the week ended October 14th

On October 4th, the 10-year Treasury yield was 1.79 percent. Then the rate began to back up and by October 12th it had risen to 2.23 percent. It appears that this recent increase turned off some people who were considering taking out a new mortgage or refinancing an old one. According to the Mortgage Bankers Association survey, for the week ended October 14th, there was a very large drop in refinancing and a relatively good-size decline in purchases, while the overall index for the week was 633.1, down from 744.3 in the week ended October 7th

~MBA Mortgage Applications Survey Index~													
2011													
	<u>12-31</u>	<u>01-07</u>	<u>01-14</u>	<u>01-21</u>	<u>01-28</u>	<u>02-04</u>	<u>02-11</u>	<u>02-18</u>	<u>02-25</u>	<u>03-04</u>	<u>03-11</u>	<u>03-18</u>	<u>03-25</u>
Composite	472.1	482.7	507.8	441.8	491.7	464.7	420.4	476.0	445.1	514.2	510.7	524.4	485.3
Purchase	199.8	192.4	188.8	172.3	188.7	186.1	175.1	184.1	172.8	194.4	186.6	191.7	188.5
Refinancing	2115.4	2219.2	2390.7	2025.2	2261.2	2086.4	1848.6	2177.2	2034.7	2383.7	2406.3	2471.2	2222.5
	<u>04-01</u>	<u>04-08</u>	<u>04-15</u>	<u>04-22</u>	<u>04-29</u>	<u>05-06</u>	<u>05-13</u>	<u>05-20</u>	<u>05-27</u>	<u>06-03</u>	<u>06-10</u>	<u>06-17</u>	<u>06-24</u>
Composite	475.7	444.0	467.5	441.2	458.7	496.3	534.8	540.8	519.4	517.5	584.6	549.9	534.9
Purchase	201.2	191.7	210.8	182.1	182.7	194.9	188.6	191.4	191.4	182.9	191.1	185.8	180.3
Refinancing	2084.1	1923.9	1975.2	1964.0	2081.6	2269.1	2568.2	2591.7	2442.9	2475.7	2883.7	2675.2	2604.4
	<u>07-01</u>	<u>07-08</u>	<u>07-15</u>	<u>07-22</u>	<u>07-29</u>	<u>08-05</u>	<u>08-12</u>	<u>08-19</u>	<u>08-26</u>	<u>09-02</u>	<u>09-09</u>	<u>09-16</u>	<u>09-23</u>
Composite	507.0	481.3	556.0	528.0	565.3	688.0	716.4	699.1	631.7	601.0	638.7	702.7	767.9
Purchase	188.9	183.9	183.7	176.7	185.8	184.2	167.5	157.9	159.3	159.6	170.8	172.2	176.6
Refinancing	2363.6	2317.3	2728.6	2578.8	2780.5	3625.7	3915.5	3850.6	3381.7	3169.4	3361.0	3813.2	4239.6
	<u>09-30</u>	<u>10-07</u>	<u>10-14</u>										
Composite	734.9	744.3	633.1										
Purchase	175.2	177.1	161.4										
Refinancing	4019.2	4072.3	3396.1										

Municipal Issuance equally influenced by Headlines and Rates



SOURCE: Municipal Market Advisors

Municipal Bond Investors and Transaction Data

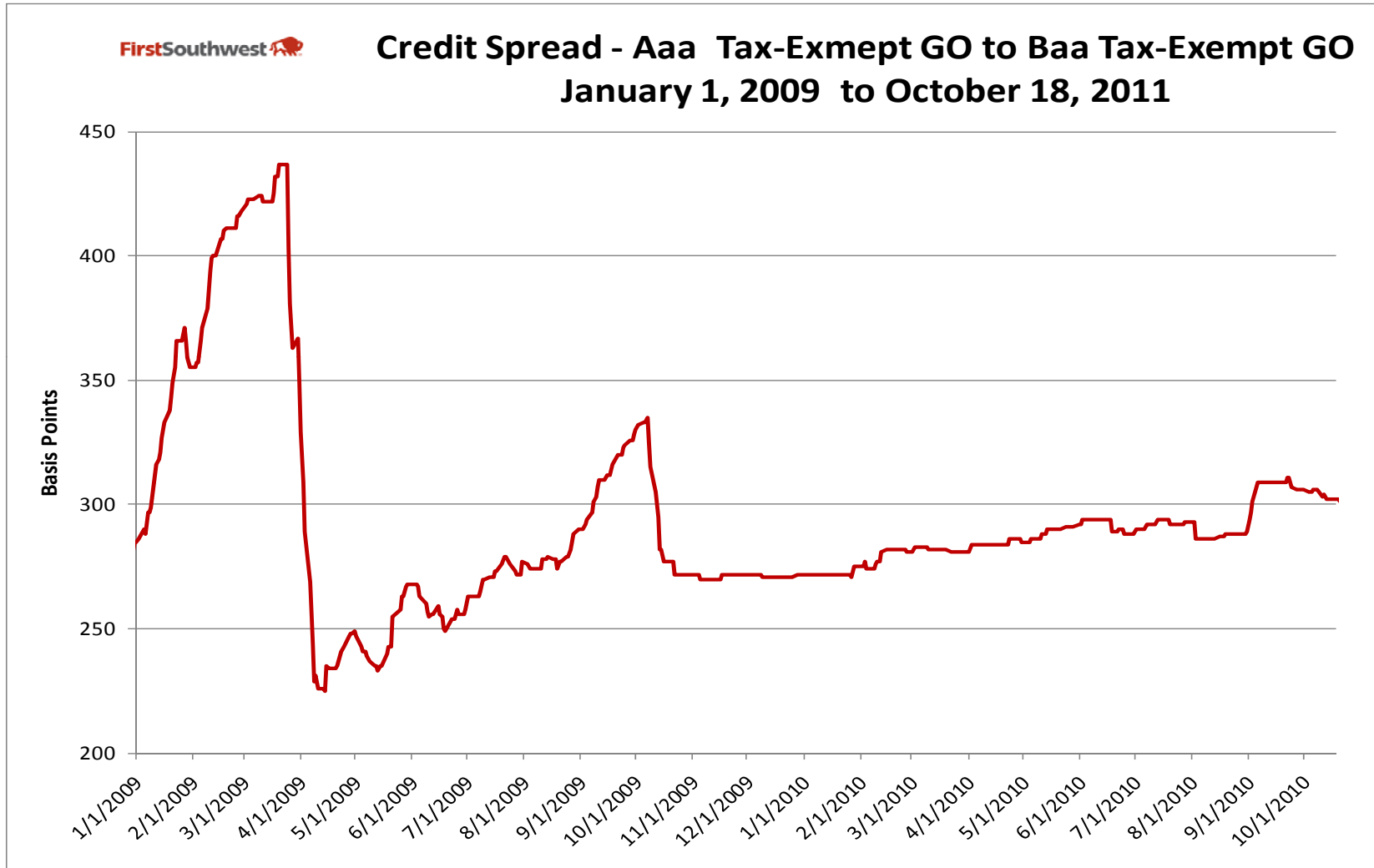
Ownership of Muni Bonds by Investor Segment									
Investor Segment	\$ Outstanding (\$Bn)						Change		
	2q10		1q11		2q11		\$ Qtr	% Qtr	% Ann
Households	1,049	37%	1089	37%	1066	37%	(22)	-2%	2%
Money Funds	352	12%	321	11%	306	11%	(15)	-5%	-13%
Mutual Funds	522	18%	523	18%	528	18%	5	1%	1%
Closed End Fds	81	3%	80	3%	80	3%	-	0%	-2%
Non-Fin. Cos.	20	1%	20	1%	20	1%	(1)	-3%	-2%
Banks	231	8%	263	9%	270	9%	7	3%	17%
Broker Dealers	35	1%	37	1%	41	1%	4	10%	16%
Prop/Cas. Ins.	359	13%	350	12%	348	12%	(2)	0%	-3%
Life Insurers	91	3%	115	4%	116	4%	1	1%	28%
GSEs and Gov'ts	27	1%	24	1%	23	1%	(1)	-4%	-16%
Foreign Buyers	65	2%	75	3%	77	3%	2	3%	19%
Total	2,859	100%	2,908	100%	2,886	100%	(22)	-1%	1%

Comparison of Number of Tax-Exempt Municipal Transactions by Trade Size: 2007-2010			
Tax-Exempt Total	2007 (#)	2010 (#)	2010 vs. 2007 (% Change)
0-\$25,000	12,425	17,259	38.9%
\$25,001-\$50,000	5,725	7,025	22.7%
\$50,001-\$75,000	1,353	1,477	9.2%
\$75,001-\$100,000	3,291	3,038	-7.7%
\$100,001-\$500,000	5,434	4,382	-19.4%
\$500,001-\$1,000,000	1,231	788	-36.0%
\$1,000,001-\$2,000,000	785	467	-40.5%
\$2,000,000+	1,499	846	-43.6%

Municipal Market Addressing State Bankruptcy Concerns

- In the past, several financing vehicles have served to match long-term municipal supply with investor demand. Auction Rate Bonds, Tender Option Bonds, Variable Rate Demand Bonds, Build America Bonds. Absent these programs, long-term municipal rates have increase to meet new “clearing” levels.
- It is difficult to isolate the threat of state bankruptcy because states and their local governments are deeply intertwined with management of tax collections, spending and borrowing programs, and mandates, the impact would not be confined to just states, but rather to all local governments. Thus entities who are dependant on state aid for revenue, could feel the brunt of investor rejection.
- Through September 2010, the US Census shows the 100 largest public pension plan assets at \$2.5Tn, down from \$2.9T at the end of 2007. Meanwhile estimates of unfunded pension benefit liabilities are at least \$800Bn, and, because public pension accounting rules employ what some have called aggressive liability discounting assumptions, this number may greatly understate the true gap in funding of future retiree costs . However, state-by-state choices for addressing long-term funding gaps can have an impact on the state’s near-term headline and rating risk and can even create actual credit risks

Municipal Market Addressing State Bankruptcy Concerns (Continued)



TEXAS ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES

Current Challenges

Par (and #) of Outstanding Muni Bonds With an Uncured Default, Reserve Draw, or Other Impairment (\$MM)					
Sector	July 2011	All Notices	Default	Support	Other
All	\$6,902 (70)	\$35,550 (610)	\$8,605 (304)	\$18,986 (193)	\$7,959 (113)
Land Secured	\$223 (14)	\$4,409 (246)	\$2,720 (146)	\$1,373 (86)	\$316 (14)
Tribal	none	\$904 (4)	\$940 (4)	none	none
Indu Dev Bond	\$30 (5)	\$1,193 (31)	\$889 (15)	\$300 (15)	\$4 (1)
Toll Road/Transit	\$1,419 (1)	\$4,666 (7)	\$889 (4)	\$1,419 (1)	\$2,358 (2)
Retirement	\$413 (8)	\$2,182 (64)	\$782 (26)	\$292 (9)	\$1,109 (29)
Housing	\$232 (10)	\$831 (64)	\$660 (47)	\$126 (11)	\$44 (6)
Hotel	\$306 (3)	\$700 (12)	\$408 (7)	\$194 (4)	\$98 (1)
Other Risky Sectors	\$878 (23)	\$13,405 (136)	\$1,311 (53)	\$10,371 (49)	\$1,724 (34)
Safe Sectors (GO,Wtr/Swr,Sales Tx)	\$3,419 (6)	\$7,223 (46)	\$7 (2)	\$4,910 (18)	\$2,306 (26)
Initially Non-Rated Bonds	\$1,420 (45)	\$10,271 (431)	\$5,829 (255)	\$2,657 (119)	\$1,785 (57)
Initially Insured/LOC Boonds	\$4,938 (12)	\$14,327 (85)	\$624 (5)	\$9,271 (48)	\$4,432 (32)
Initially Rated, Unisured Bonds	\$288 (8)	\$10,115 (51)	\$1,640 (18)	\$6,844 (20)	\$1,631 (13)

Source Municipal Market Research: While municipal downgrades loomed, hinged to the uncertainty regarding federal programs ahead of the debt-ceiling deadline of August 2, there remained only \$8.6B cumulative uncured defaults in the municipal market since July 2009, when MMA began aggregating credit impairment notices.

State Bankruptcy Bill proposal

The immense economic and political costs of a hypothetical state bankruptcy filing outweigh the degree of fiscal distress actually being felt by the states at present or their need for such extreme remedies.

Standard & Poor's reported the financial implications, in terms of increased borrowing costs and reduced market access, of a bankruptcy filing typically outweigh the benefits of restructuring debt service, which on average represents only 4% of expenditures for states

Bankruptcy Bill adds Market Disruption

Over the past 70 years, there have been 600 bankruptcy filings by local government entities out of a universe of about 90,000 governments, according to a Congressional Budget Office report

Since July 2009, municipal defaults have remained essentially confined to initially unrated credits and less than \$9B in par, a mere 0.30% of all outstanding municipal bonds.

Should a bankruptcy rule be adopted, municipal investors would consider legal and statutory protections for bondholders as subject to implying far more credit risk in the municipal sector.

GASB Initiative

- Expected to provide additional information on pension funding and some standardization in calculations.
- Discount Rate
 - While there are plan assets: an expected rate of return on plan investments as recommended by actuary based on actual returns of the plan.
 - After plan assets depleted: based on a high quality municipal bond index rate.
- Attribution Method
 - Single method to be utilized.
 - Based on entry age normal principles; Level percentage of payroll.
 - Beginning in first period employee's services lead to benefits and ending in last period of service.
- Increased Transparency
 - Net Pension Liability to be in financial statements.
 - More disclosures in notes, including actuarial assumptions.
 - 10 years of information in requirement supplementary section.

Disclosure

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