



Michigan Municipal Market Update



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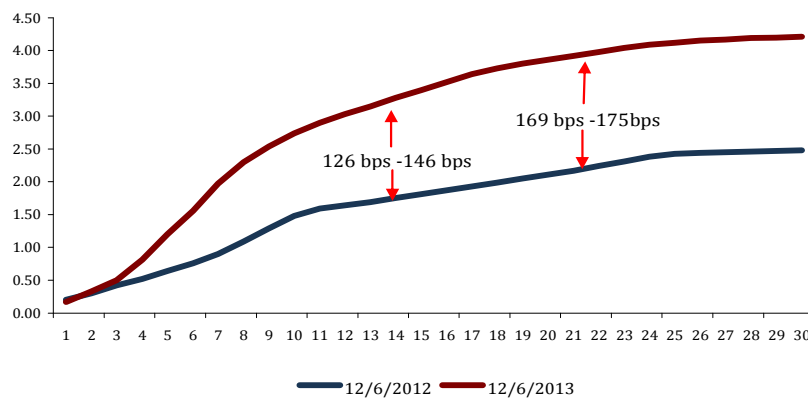
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Municipal Commentary

Just a year ago, we reached a generational low in municipal bond yields measured by the Bond Buyer 20-bond Index. The BBI 20 is a weekly average of current rates for 20 different general obligation bonds due in 20 years with an average rating of "AA". In late November 2012, the index fell to 3.27%, the lowest level since 1965! The most current index level is 4.70%, quite a reversal in just 12 months. The overall shape of the yield curve has changed as well. The diagrams below summarize municipal rates for December 6, 2012 versus December 6, 2013, respectively.

AAA MMD	12/6/2012	12/6/2013	Change
5 Year	0.64	1.20	+0.56
10 Year	1.48	2.74	+1.26
15 Year	1.81	3.40	+1.59
20 Year	2.11	3.86	+1.75
25 Year	2.43	4.12	+1.69
30 Year	2.48	4.21	+1.73



As analysts continue to cautiously watch the municipal market, the matter of pensions continues to be a topic of concern. In recent weeks, two landmark pension decisions have emerged. First, the federal court ruled that the City of Detroit is eligible for bankruptcy protection. In addition, it was ruled that the City's pension liabilities can be reduced as a result of the bankruptcy process. Experts predict this decision will make it easier for other cities to argue that pensions must be cut. The second significant event, after years of debate, came when Illinois finally approved a pension reform package. The proposed plan will reduce annual cost of living increases, raise the retirement age for workers 45 and under, and impose a limit on pensions for the highest paid workers. This decision proves momentous because previously most states and cities' pension reform impacted new hires, rather than current employees and retirees. The legislation will be challenged. It is clear that many states and municipalities are increasingly facing tough decisions as it relates to pension reform and its implications.

