

Bond yields dropped sharply and remain volatile.

- **Investor demand has waned due to low yields.**
- **Political and economic uncertainty persist.**

Markets in July & August

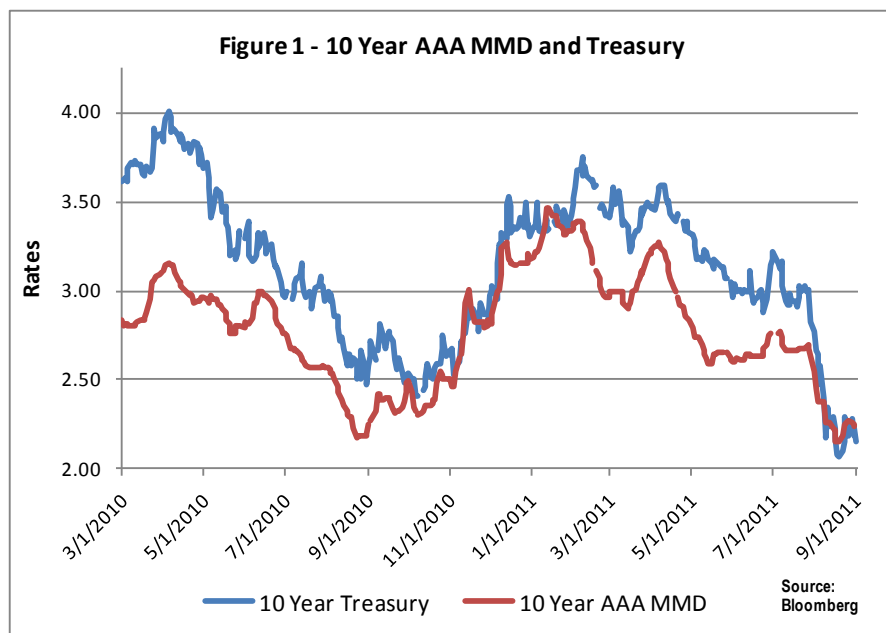
The municipal market in the month of August had low in new issue volume. August had volume of \$21 billion of long-term new issues, down from \$24.3 billion in July, 2011. In year over year terms, municipal new issuance volume is down 9.2% from August 2010 where new issuance exceeded \$29.7 billion, continuing a trend of lower year-over-year volume.

At the beginning of August rates dropped precipitously and since then they have been very volatile but remained low. The Municipal Market Data, (“MMD”) triple-A municipal market scale has remained near historic low levels along the entire yield curve. Since the beginning of July the general market index MMD triple-A 10-year yield has fallen 59 basis points (“bps”) to 2.17%, and the 30 year yield is down 58 bps to 3.78%. Economic weakness and the relatively low level of supply have helped to keep yields down for high-rated, and to a lesser degree low-rated, bonds.

Supply is expected to end remain below last year’s levels until the

end of the year, but there is some hope that absolute volume will rise a small amount after the Labor Day holiday.

Treasury bond prices have rallied since the beginning of August, as a “flight to quality”, ironically driven by S&P’s August 5th downgrade of U.S. debt from AAA to AA+, has driven down yields on treasuries across the board as investors look to avoid perceived credit risk elsewhere in the financial markets. The rally has pushed down treasury prices to the point that the tax-free municipal bond price to treasury bond price ratio now ranges between 99 and 114%, up drastically from the long term historical range of 86-89%. This suggests that fixed income investors have become so credit conscious that they are willing to pay a premium, and taxes, for treasuries over high quality tax-free municipal bonds. As of September 1, the ratio of municipal bond yields to treasury yields was:



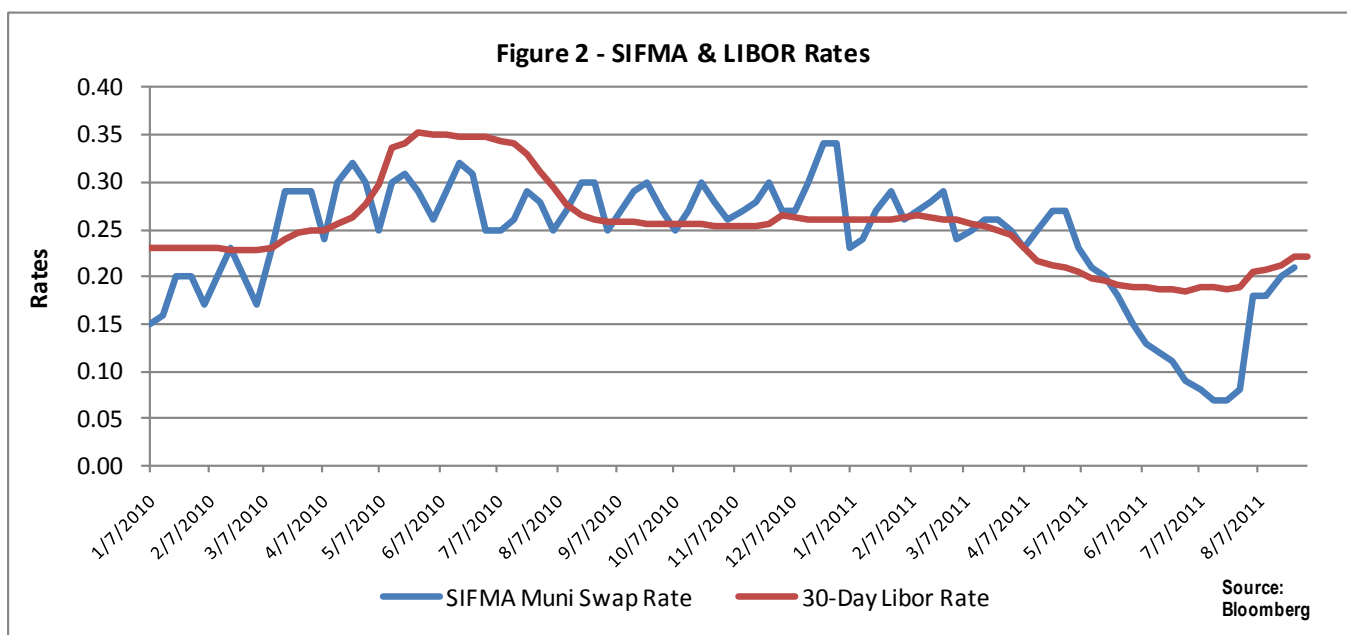
5-Year	0.87 / 0.88	99%
10-Year	2.17 / 2.02	107%
30-Year	3.78 / 3.32	114%

While MMD provides a general tax-backed market indicator and a useful benchmark for traders and underwriters, MMD performance does not capture the dynamics affecting revenue bonds in today's marketplace. Despite the market's history of viewing tax-backed general obligation bonds as superior in credit quality to revenue bonds, the dedicated cash flows from essential purpose revenue bonds have become increasingly attractive to

investors worried about the pressures on municipal budgets in the current economic environment and the resulting weakening of governments' balance sheet. At the same time, concerns over potential defaults in the municipal market have driven yields on lower-rated revenue bonds to increasingly large premiums to the general market indices. This rise in rate spreads for lower-rated bonds has been particularly pronounced in

the low end hospital market and with obligors who rely upon state assistance from states with significant budget problems, i.e. state college systems in California, Illinois, etc.

Table 1 on Page 3 shows selected recent issues in revenue sectors of the municipal market, focusing on the pricing of lower-rated transactions, in contrast to higher-grade municipal market benchmarks.



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July & August 2011 Selected Bond Issues								
Issue Size \$5 million to \$50 million								
Health Care Sector								
<u>Sale Date</u>	<u>Par (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Other</u>
7/11/2011	\$8.44	Fredrick County, VA Industrial Development Authority	Village Orchard Ridge Residential Care Facility	NR	7/1/2046	7.80%	337	
7/11/2011	\$25.55	Miami-Dade County, FL Health Facilities Authority	Miami Children's Hospital	/ A / A	8/1/2046	6.00%	166	
7/18/2011	\$37.36	Connecticut Health and Educational Facilities Authority	Middlesex Hospital	A2 //	7/1/2027	4.86%	140	General Obligation of the Hospital
7/25/2011	\$28.84	Connecticut Health and Educational Facilities Authority	State Supported Child Care	/ A1 / AA-	7/1/2031	4.92%	107	
7/25/2011	\$24.02	Kentucky Economic Development Finance Authority	Masonic Home Independent Living	NR	5/1/2041	7.35%	300	
8/15/2011	\$13.14	New Richmond, WI Community Development Authority	New Richmond Senior Housing Project	NR	9/1/2043	6.65%	277	
8/22/2011	\$43.90	Missouri Health and Educational Facilities Authority	St. Luke's Episcopal Hospital	/ A / A	12/1/2025	4.40%	155	
8/22/2011	\$16.00	Travis County, TX Healthcare District	Taxable General Obligation Bonds	/ AAA /	3/1/2026	4.25%	NA	Taxable
Education Sector								
<u>Sale Date</u>	<u>Par (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Other</u>
7/4/2011	\$22.23	San Diego Community College District	General Obligation Refunding Bonds	Aa1 //	8/1/2023	3.55%	18	
7/4/2011	\$15.30	Wyoming Community Development Authority	University of Wyoming - Student Housing	Baa3 / BBB /	7/1/2043	6.50%	213	
7/11/2011	\$11.87	College of The Sequoias Tularearea, CA	Bond Anticipation Notes	NR	9/1/2013	1.45%	103	
7/11/2011	\$7.90	Fox Valley Technical College, WI	Promissory Notes - General Obligation	Aaa //	12/1/2016	1.45%	19	
7/11/2011	\$8.19	Iowa Central Community College	General Obligation Capital Loan Notes	Aa3 //	6/1/2024	3.50%	30	
7/11/2011	\$23.77	Monroe County, NY Industrial Development Corporation	Nazareth College of Rochester	Baa2 / BBB+ /	10/1/2041	5.68%	134	
7/11/2011	\$6.57	State of Texas	College Student Loan Refunding	Aaa / AA+ /	8/1/2022	3.68%	79	
7/11/2011	\$34.94	Yuba Community College District, CA	Election of 2006 General Obligation	Aa2 / /	8/1/2047	5.52%	218	
7/18/2011	\$9.63	Jacksonville State	Tuition & Fee	/ A /	12/1/2022	3.67%	82	

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		University, AL	Refunding Bonds					
7/18/2011	\$8.90	Iowa Higher Education Loan Authority	Dubuque University	/ BBB- /	10/1/2031	6.18%	235	
7/18/2011	\$32.69	Kishwaukee Community College District, IL	Capital Appreciation Bonds	/ AA /	2/1/2036	7.03%	278	
7/18/2011	\$20.14	South Dakota Health and Educational Facilities Authority	Vocational Educational Program	Aa2 // AA	8/1/2046	5.15%	83	
7/18/2011	\$14.64	St. Lawrence, NY Industrial Development Agency	Clarkson University Project	A3 //	9/1/2041	5.45%	113	
7/25/2011	\$9.46	DuPage, Cook, & Will Countys, IL Community College District	General Obligation Refunding Bonds	Aaa / AAA /	1/1/2023	3.42%	39	
7/25/2011	\$37.50	Mendocino Lake Community College District, CA	Election of 2006 General Obligation	Aa2 / A+ /	8/1/2041	5.22%	87	Assured Guaranty
7/25/2011	\$45.71	Prince William County, VA Industrial Development Authority	George Mason University Foundation	/ A /	9/1/2041	5.20%	85	
8/1/2011	\$25.53	California Community College Finance Authority	Coast Community College	Aa3 / A+ /	6/1/2041	5.62%	133	
8/1/2011	\$5.00	California Community College Finance Authority	West Valley Mission	Aa3 / AA- /	6/1/2028	6.10%	NA	Taxable
8/1/2011	\$13.40	New Mexico Institute of Mining and Technology	Revenue Bonds	A1 / A+ /	7/1/2031	4.73%	91	
8/8/2011	\$20.72	Fayetteville State University, NC	Limited Obligation Student Housing Project	Aa3 / AA+ / A	4/1/2043	5.06%	77	Assured Guaranty
8/8/2011	\$8.00	Mineral Area Community College, MO	General Obligation Bonds	Aa3 //	3/1/2026	3.30%	22	
8/8/2011	\$15.23	Washington Higher Education Facilities Authority	Seattle University Project	/ A /	5/1/2032	4.75%	113	
8/15/2011	\$39.32	Monroe County, NY Industrial Development Corporation	University of Rochester	Aa3 / A+ / AA-	7/1/2041	4.60%	72	
8/15/2011	\$11.09	Oklahoma Development Finance Authority	State System Higher Education	/ AA / AA	6/1/2026	3.85%	82	
8/15/2011	\$26.02	Texas Technical College	Refunding Bonds	A1 / A /	8/1/2036	4.94%	110	
8/22/2011	\$27.25	Cook County Community College District	Limited Tax General Obligation	Aaa //	12/1/2024	3.56%	85	
8/22/2011	\$21.50	Milwaukee Area Technical College	Promissory Notes - General Obligation	Aa1 //	6/1/2016	1.20%	35	
8/22/2011	\$21.00	University of Oklahoma Board of Regents	Refunding Bonds	/ AA- / AA	7/1/2026	3.76%	79	
8/22/2011	\$25.00	Troy, NY Industrial Development Authority	Rensselaer Polytechnic Institute	Aa3 / A- /	4/1/2037	5.20%	143	

Source: Bloomberg

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Development Sector								
Sale Date	Par (\$ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Other
7/11/2011	\$6.86	Concorde Estates Community Development District	Capital Appreciation Bonds	NR	5/14/2017	5.00%	337	
7/11/2011	\$30.00	Massachusetts Development Finance Agency	Sterling & Francine Clark Art Institute	/ Aa3 / AA	7/1/2041	4.75%	41	
7/18/2011	\$13.67	Bloomington, IN Redevelopment District	Tax Increment Financing	/ A- /	2/1/2032	5.15%	116	
7/18/2011	\$48.39	Capital Trust Agency, FL	Million One Air LLC	Ba3 / /	1/1/2041	7.75%	341	
7/18/2011	\$9.47	Coral Gables Palace District, FL	Special Assessment District	/ AA /	5/1/2042	5.43%	111	
7/18/2011	\$36.61	Mississippi Development Bank	Jackson County Limited Tax Note	/ A /	7/1/2036	5.50%	125	Assured Guaranty
7/18/2011	\$20.14	South Dakota Health and Educational Facilities Authority	Vocational Educational Program	Aa2 // AA	8/1/2046	5.15%	83	
7/18/2011	\$14.64	St. Lawrence, NY Industrial Development Agency	Clarkson University Project	A3 //	9/1/2041	5.45%	113	
7/25/2011	\$9.00	Canby, OR	Tax Allocation Bonds	A2 //	6/1/2036	5.10%	82	
7/25/2011	\$5.36	Highland Community Facilities District, CA	Special Tax	/ BBB /	9/1/2028	5.80%	223	
7/25/2011	\$31.07	Prince William County, VA Industrial Development Authority	George Mason University Foundation	/ A /	9/1/2041	5.20%	97	
8/1/2011	\$49.45	Pigeon Forge, TN Industrial Development Board	Public Facility Bonds	/ AA /	6/1/2036	4.63%	41	General Obligation Pledge of City
8/8/2011	\$19.66	Munster, IN Economic Development	Lake Business Center Tax Allocation Bonds	/ A /	1/1/2031	5.13%	160	
8/8/2011	\$5.40	Terre Haute, IN Redevelopment District	Tax Allocation Bonds	/ A- /	2/1/2028	4.63%	137	
8/15/2011	\$12.28	Maryland Community Development Administration	Local Government Infrastructure	Aa2 //	6/1/2032	4.25%	67	

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