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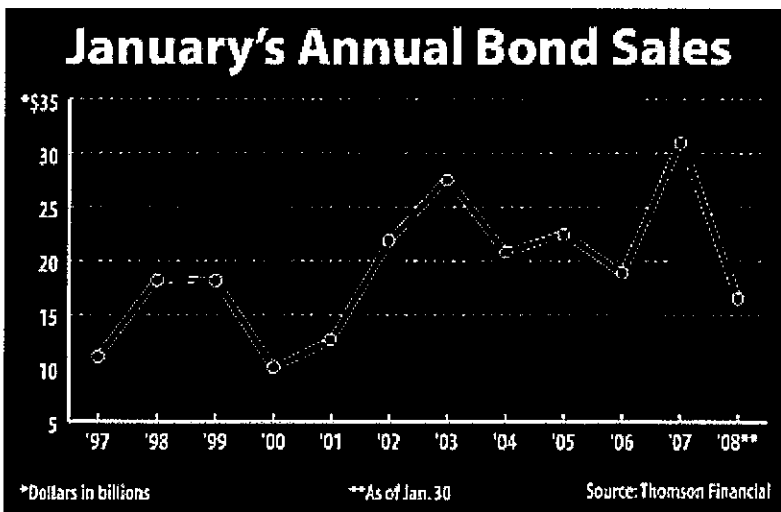
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A dramatically changed municipal market coupled with concerns relating to bond insurers has sent January new-issue volume plunging to levels not seen since September 2001, preliminary data from Thomson Financial shows.

Issuers sold just \$16.5 billion of bonds during the month of January, a 47.2% drop from the same month last year, when issuers brought \$31.2 billion in deals to market. Last month marked the slowest start to the year for the municipal market since 2001.

“The whole landscape of the market is completely different,” said one market source. “Everything got commoditized and now all of a sudden everything has risk and people are trying to figure out how to value it.”

The credit spreads between triple-A rated, 30-year general obligation bonds and single-A rated bonds of the same maturity and type, stood at 51 basis points Wednesday, according to Municipal Market Data. Aside from a week in late November and early December 2007, it is the widest the spread has been in over a decade.



The spreads have not been helped by the turmoil in the bond insurance industry, as Fitch Ratings has already downgraded three of the triple-A bond insurers, and is threatening to do the same to most of the others. Standard & Poor's yesterday downgraded Financial Guaranty Insurance Co. from AAA to AA, putting the insurer on credit watch with developing implications. Moody's Investors Service is also conducting its own reviews, and is expected to issue announcements and potential downgrades in the coming days.

The use of insurance during January fell by 70.5% compared to January

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2006, the preliminary data show. This year, 240 deals employed insurance for total volume of \$5.2 billion, while 450 deals used insurance last year for volume of \$17.5 billion.

In some cases, issuers have turned to letters of credit for the guarantee they need. Fifty-seven deals utilized LOCs for volume of \$1.3 billion, compared to last year's totals of 42 deals and \$449 million.

"What is happening in the market right now is that everyone was taking the month of January to reevaluate what they actually owned," said Jerry Solomon, senior managing director and municipal bond analyst at Bear, Stearns & Co.

But for most issuers looking to finance new deals, less options for bond insurance means higher borrowing costs and a greater incentive to stay on the sidelines until the market stabilizes.

Educational institutions, the most active sellers in January, issued 49.4% fewer bonds this year than last, for 268 deals worth \$5 billion. General purpose entities, the next busiest type of issuer, fell 66.8%, to \$2.8 billion, from \$8.6 billion a year earlier.

Development and environmental facilities have shown the biggest increase in issuance over last year. Development entities issued 24 deals, a 255.5% increase over last year, for volume of \$801.7 million. Environmental facilities structured two deals for volume of \$63.9 million, a 307% increase over last January.

Also affecting issuers is fiscal uncertainty related to falling revenue streams. As much as falling values of subprime mortgages have affected the balance sheets of the bond insurers, they have also begun to undercut the budgets of state and local governments.

"We are in a bit of a budget crisis and things aren't working out the way we expected in terms of revenue flows," said Bob Smith, president and chief information officer at Sage Advisory Services. "The real estate market for so many entities out there as far as tax base is crumbling."

State governments and local municipalities have all shown a dramatic drop in volume, as have state agencies. New issues from districts fell 52% over last year to \$3.5 billion, from \$7.3 billion, while state agencies also saw a decline of 62.4%, to \$3.8 billion from \$10 billion.

Many state officials are hopeful that spreads will tighten in the coming months, and that the insurance industry will remain intact through all the downgrades.

In an interview with the Bond Buyer, New Jersey Gov. Jon Corzine said bond insurance is still an option for issuers if state and local governments evaluate companies on their own merits rather than dismissing the bond insurance industry as a whole.

"You have to differentiate between the success or failure of individual bond insurers as opposed to saying that the concept of bond insurance is flawed," Corzine said.

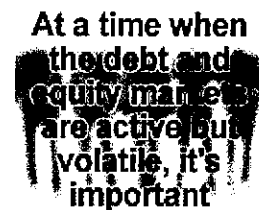
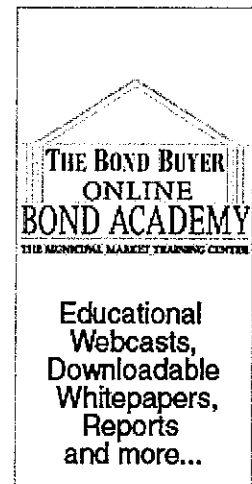
The governor, who was chairman and chief executive officer at Goldman, Sachs, & Co. from 1994 to 1999 and spearheaded the firm's transformation into a public company, added that while issuers are more limited in terms of insurance choices "at the moment," future market conditions could generate a more favorable environment for states and local governments as they issue debt.

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