



Setting the Record Straight: BDA Statement on Municipal Market Health

The Bond Dealers of America believes strongly in the health of the municipal bond market. The BDA is concerned about the detrimental effect on municipal finance of exaggerated statements about State and local fiscal problems. As the trade association representing securities dealers and banks active in the US capital markets, the BDA believes it is important to set the record straight.

The historical default rate for governmental debt is negligible. The average 10-year cumulative default rate from 1970 to 2009 for investment-grade municipal debt was only 0.09% with only 54 defaults on rated credits – and just three general obligation defaults. In the last four years and during the height of the recession, only 7 municipal governments filed for bankruptcy, yet all bondholders were paid in full. By comparison, AAA corporate credits were three times more likely to default than BBB municipal credits. Further, municipal debt service is only about three to five percent of State and local budgets.

Pension liabilities will be a challenge, but these are long-term liabilities upon which State and local governments are focused. Stock market declines of recent years have reduced pension assets, on average, to 75% of what is required. But that shortfall can be prudently addressed over a number of years. Accordingly, the current budget impacts of pension contributions are manageable.

While there is no guarantee that there won't be some defaults, these facts show that the suggestion of 50 to 100 major defaults is a sensationalized claim. Such statements are irresponsible and damaging to the municipal market – both to investors and to State and local governments.

States and local finances have improved since the beginning of 2010. State and local governments have the tools and willingness needed to solve their budget problems. While there are stresses, the recent claims about risks in State and local finances are not backed up by facts. The BDA and its members will do everything we can to correct misperceptions and misstatements about the municipal market and to provide accurate information to the public about this critical financial sector.