

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

June 7, 2010



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Battle Uncertainty with Diversification

- Tax exempt municipal yields fell in May but not to the extent Treasuries dropped.
- The BAB extension should be decided soon and the IRS is looking into BAB pricings.
- There is not a US State debt crisis and they are not as leveraged as EU Sovereigns. California will not fall to the same factors that are stressing Greece.
- Many large state HFA single family housing resolutions are healthy with mortgages performing better than state averages.
- Floating rate notes continue to be utilized as an alternative short term product.
- The State of Maine used a NAIC designation but we are not seeing a pricing differential as a result of its inclusion.
- The Long Island Power Authority's and the Florida Hurricane Catastrophe Fund's Fitch ratings were elevated while the State of Connecticut's Fitch rating, the State of Illinois' Moody's rating and California Housing's Moody's and S&P ratings were lowered.

MARKET COMMENTARY

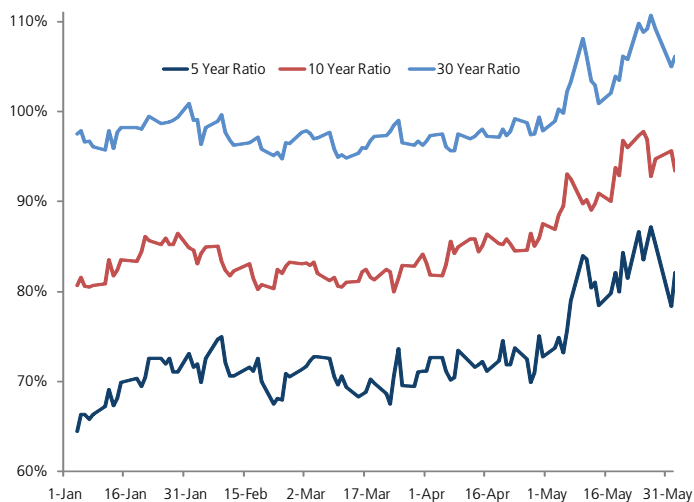
Demand is Strong

Tax free yields fell throughout May, but the decline could not keep up with Treasuries which benefited from the massive flight to quality generated by the European contagion. Even at low yields, strong demand has continued with positive fund flows throughout the month - cumulative flows into municipal mutual funds total \$18 billion year to date. By contrast, domestic equity funds have \$15.3 billion in outflows thus far in 2010. We should see demand remain strong. According to a Municipal Market Advisors report, municipal interest and principal reinvestment - money that in theory will be plowed back into tax free bonds - will total \$61.3 billion in June and \$49 billion in July, exceeding amounts of any other months in 2010.

Ratios Moved Higher

Although yields moved lower, the real movement was in ratios - the ratio of AAA tax free yields to Treasury yields. As Treasury yields dropped throughout the month, lagging muni yields caused ratios to jump. The ratio for thirty year AAA tax free paper, below 100% for the first four months of 2010, hovered above 100% throughout May, reaching 110% and finishing at 106%. Ratios for other maturities also jumped in May. As low as rates are, in the current low inflation environment, a AAA tax free yield above a Treasury yield is attractive.

M/T Ratios Have Increased in 2010



Source: Bloomberg; Municipal Market Advisors & Janney FIS.

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"There will be a terrible problem and then the question becomes will the federal government help... It's a bet on how the federal government will act over time," Warren Buffet.

Many state budgets face daunting short and long term challenges in the form of reduced revenues, wide budget gaps, unfunded pension liability and increased demand for resources.

Municipal bond investors need to take diversification seriously. This key tenant of investing is now timelier than ever.

Of course it is not an apples to apples comparison. Most municipal bonds are callable in ten years or less while Treasuries are non callable, and as creditworthy as AAA municipal bonds are, they are not in the same league as Treasuries. Nevertheless the ratios are compelling. When the 39.6% top tax bracket kicks for 2011, a 4.20% Treasury yield will reduce to 2.53% after tax for top bracket investors.

Are Munis Safe?

The perception of munis as a safe haven has helped demand, but financial challenges for states and local municipalities continue. According to a Bloomberg report, in comments before the US Financial Crisis Inquiry Commission, Warren Buffett, who's Berkshire Hathaway Inc. has been trimming its investment in municipal debt, predicted a "terrible problem" for municipal bonds in coming years. "There will be a terrible problem and then the question becomes will the federal government help...I don't know how I would rate them myself. It's a bet on how the federal government will act over time." Berkshire Hathaway, which formed AAA bond insurer (BHAC) in 2008 (subsequently downgraded to Aa1/AA+) entered the market as competition dried up when insurers such as Ambac, MBIA and FGIC saw steep downgrades and loss of business. BHAC has all but withdrawn from the bond insurance business, leaving only Assured Guaranty to handle the remaining 6% insurance market share, down from 50% during most of the last decade.

Concerns about the safety of municipal bonds, along with yields, jumped in 2008 as auction rate failures and insurers' implosions frightened investors. The ratio of AAA tax free yields to Treasury yields in ten year maturities jumped from the 70% to 90% range of the previous thirty years to as high as 180% in late 2008. Ironically, as the Great Recession progressed, and state budgets came under pressure, tax free yields and ratios returned to their normal ranges, but articles in major publications including the Wall Street Journal, New York Times, Time Magazine and Barons have continued to question the financial stability of the state and local government sector.

State budgets do face daunting short term and long term challenges. The hangover from the Great Recession lingers in the form of reduced revenues, wide budget gaps and increased demand for resources. The American Recovery and Reinvestment Act (ARRA) – the stimulus package – included about \$160 billion paid to or through states in 2009 and 2010 with amounts trailing off significantly in subsequent years. Although proposals have been floated at the federal level to allocate additional money to states, the proposed amounts are small compared to ARRA amounts, and may never advance beyond the idea stage.

Longer term, states face a much publicized problem with unfunded pension liabilities. The Pew Center on the States <http://www.pewcenteronthestates.org/> estimates a gap of \$1 trillion in unfunded pension and other retirement benefit liabilities. This has developed as a result of both the huge decline in security values in the 2008-2009 market drop (something with which many 401k and IRA participants are familiar) and reduction in contribution levels on the part of many states as they struggle to balance budgets. Securities values have recovered somewhat, but according to Pew, twenty-one states have funded future pension liabilities at levels below 80% including ten below 70%. In most cases this is a longer term problem, since at some point states with large unfunded balances will need to increase contribution rates. Like federal social security, retirees will be paid next year, but longer term funding pressures need to be addressed.

Local municipalities are also impacted by the sluggish economy although property taxes, which are a main local revenue source, are generally more stable and secure than volatile income and sales taxes which provide most state revenue. The instances of default for municipal bonds have historically been lower than other fixed income asset classes such as corporate bonds, but the economic pressures will likely increase the number of defaults although we expect the number to be small.

Diversification is Key

Municipal bond investors need to take diversification seriously. This key tenant of investing is more timely than ever. Although there may be tax benefits from holding bonds issued in an investor's state of residence – especially in high tax states such as New Jersey, California and Rhode Island – investors eggs should not all be in one basket. Difficult budget challenges for a state may lead to cuts in state revenue to local governments, potentially affecting the financial stability of many bond issuers in that state.

Janney does not foresee a "Municipal Meltdown" or a high proportion of municipal bankruptcies or defaults. But, investing requires planning for anticipated as well as unanticipated events.

The American Jobs and Closing Tax Loopholes Act includes an extension of BAB issuance through 2012 with a lower federal subsidy.

The IRS will look at pricing levels of as many as half of all BAB issues.

Natural or manmade disasters can potentially impact one state or geographic area (see Collapsed Oil Rig's Effect on Gulf Region). A municipal portfolio with bonds from multiple states and geographic areas provides stronger immunization from narrow credit events, at the expense of slightly higher tax payments at the state level. In low tax states such as Florida there is little benefit to concentrating holdings in Florida bonds.

Taking diversification a step further, a portfolio with 100% municipals should be examined. As noted earlier, municipals as an asset class underperformed other fixed income classes for many months in 2008 and 2009, and although municipals have largely recovered, a second dip to the recession or tax law change could have a disproportionately negative impact on municipal bonds. Investors with 100% municipal portfolios should consider placing a portion of a portfolio in US Agencies, corporate bonds or other securities, even though there will likely be tax costs. IRAs and other tax deferred accounts can be used to achieve overall diversification, with minimal tax impact.

To be clear we are not predicting problems for municipal bond holders, and we do not foresee a "Municipal Meltdown" or a high proportion of municipal bankruptcies or defaults. Furthermore we believe future tax increases and the generally sound credit characteristics of the municipal sector are a compelling reason for high bracket investors to own tax free bonds. But prudent investment requires planning for anticipated as well as unanticipated events, and this is best done through a well considered diversification strategy. **Alan Schankel**

BUILD AMERICA BOND UPDATE

May was an important month for Build America Bonds (BAB), with events and prospective measures that will shape the BAB market for coming years. Although not yet final, federal legislation which will likely extend and expand authorization for BAB issuance well beyond the scheduled December 2010 sunset, is moving forward. Before breaking for the Memorial Day weekend, the House of Representatives passed the American Jobs and Closing Tax Loopholes Act which includes an extension of BAB issuance through 2012, although the current 35% federal interest subsidy would be reduced to 32% and 30% respectively in 2011 and 2012. Another provision allows use of BABs to refund certain outstanding tax free debt. BABs accounted for over 25% of new issue volume in the first five months of 2010, and the pace could grow in coming months as issuers take advantage of the higher 35% rate before it drops in January (assuming legislation is enacted).

But there is more to the story than the program extension. In March, Ben Watkins, Florida's Division of Bond Finance Director, put into place a temporary freeze on Florida's use of BABs. Watkins' issue was that the federal government could hold back subsidy payments, as an offset, if Uncle Sam believed the state owed the federal government money. His concerns were soon realized. In a dispute over payroll taxes with Austin, TX, the IRS held back \$617,000 in BAB interest subsidies in April. Maryland saw about \$7,000 withheld for similar reasons and the Los Angeles Airport was hit with a \$28 offset. Shortly after the Austin and Maryland events surfaced, Florida's Ben Watkins made the BAB freeze for Florida permanent.

A second concern for BABs comes in the form of Internal Revenue Service (IRS) audits. Initial indications that the IRS would look at half of the 790 issues marketed since April 2009, have been moderated to emphasize "up to half" with an IRS spokesman saying that they "haven't decided on the exact amount." A key issue is whether the interest rate of the bonds is reflective of market rates. There are antidotal reports of BAB issues trading immediately after issuance at prices significantly above the initial offering price which could indicate that the initial interest rate (and thus the subsidy amount) was too high. Both of these concerns deserve attention, but unlike Moody's, which headlined a recent report "Build America Bond Developments Are Potential Credit Negatives," we believe these issues add little additional credit risk to BAB investments, although they could deter the amount of future issuance.

The reduction of subsidy amounts from the federal government to offset money owed for items such as payroll taxes, Medicaid payments and other inter-government payments, for the most part represents money which would be owed and paid in any case – sure this gives the federal side more leverage, but ultimately it will have little financial impact on any but the smallest, weakest issuers. There may be some issuers with questions to answer when the IRS audits, but audits are fairly typical of a new program, and although there may be some individual circumstances which warrant closer IRS scrutiny, the track record of IRS audits of municipal bond issuers, in non BAB circumstances, is

BAB spreads generally widened in May because of the strong Treasury rally as investors fled to quality in the wake of woes in Europe.

There is not a US state debt crisis and no states' financial situation is even close to the challenges facing Greece.

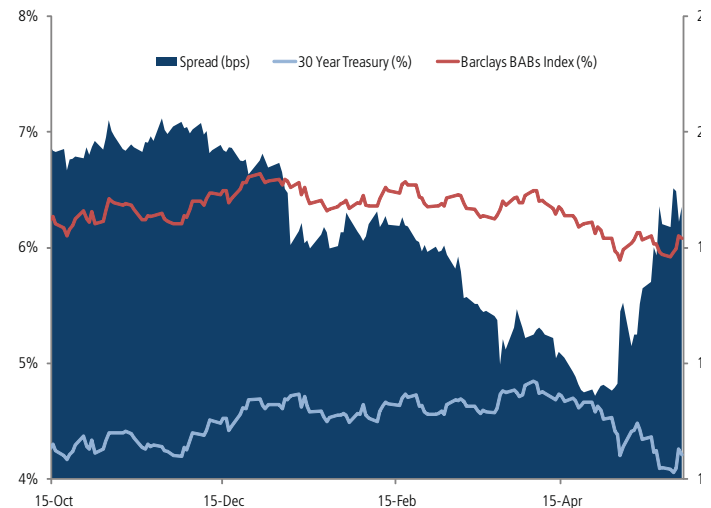
The comparison of California to Greece or any US state to an EU sovereign is limited.

very favorable for bondholders – where a regulatory violation is discovered, it is usually remedied with a fine to or payment from the issuer, with no impact on bondholders.

BAB Market

Despite the turmoil noted, BAB issues continue to flow, with year to date volume through May of \$41 billion comprising more than 25% of municipal bonds sold. BABs yields are generally monitored based on spread – since they are taxable, the basis point differential between the bond's yield and the yield of a like maturity Treasury issue. In April 2009, the first thirty year maturity BAB issue for the University of Virginia, sold with a yield of 6.22%, which was 250 basis points above the thirty year Treasury yield of 3.72%. This spread narrowed during 2009 and into 2010, but recently we've seen some widening. The graph shows widening through most of May, but this had more to do with the strong Treasury rally as investors fled to quality in the wake of woes in Europe than concerns about BABs. As noted earlier, tax free municipals also underperformed Treasuries. **Alan Schankel**

BAB Yields and Spreads



Source: Bloomberg; Barclays & Janney Fixed Income Strategy.

CALIFORNIA WILL NOT BE THE NEXT GREECE

There has been speculation in recent weeks that US states, especially those facing a high level of press surrounding their budgets and tight fiscal situations such as, California, New Jersey, Illinois or Rhode Island, are facing a debt crisis similar to that of the European sovereigns. Greece, by far, is the worst sovereign in terms of its debt and deficit position. The EU established a "bailout" in the form of its \$1 trillion European Stabilization Mechanism after concerns about the country's ability to pay debt service surfaced. Concern about the contagion effect spreading to Italy, Portugal and Spain also surfaced. Recently, market participants have expressed worry about the contagion also spreading across the Atlantic. However, the conjecture is not warranted, in our opinion. There is not a US state debt crisis and no states' financial situation is even close to the challenges facing Greece. Some US states are facing extreme near term budget pressure, but they do not suffer from the same leverage as the sovereigns. Since states are not as leveraged as their EU counterparts we can report California (or New Jersey, in response to Gov. Chris Christie's recent comments to the Manhattan Institute) will not succumb to the same forces stressing Greece. The key factor we cite to illustrate why US states are less leveraged is the comparison of the states' tax-support debt to Gross State Product (GSP) ratios versus the sovereigns' government debt to Gross Domestic Product (GDP) ratios. The state's debt to GSP ratios are much lower compared to the Debt to GDP ratios of the EU sovereigns.

Readers should keep in mind that the comparison of California to Greece or any US state to an EU sovereign is useful as a starting point but is limited. States do not have the same responsibilities as sovereigns. Sovereigns typically fund areas such as the military or control other national level powers. States usually possess other outstanding debts and could arguably be liable for their share of the national debt, for example. To be considered a more thorough study, factors allowing a more accurate comparison while considering differences in service delivery expected from different levels of government would optimally be compared. It is a natural reaction for investors to be concerned about whether a US state is close to the perils of Greece and this contrast is a useful beginning.

Tom Kozlik

US states' Debt to GSP ratios are much lower compared to the Debt to GDP ratios of the EU sovereigns.

The best chance at stopping the oil flow involves the drilling of relief wells, a solution that is at least two months from completion.

Florida and its communities possess greater exposure to the ecological disaster.

Comparison of Select US States and EU Sovereigns

US State	Tax Supported Debt to GSP Ratio	Tax Supported Debt (\$ in mil)	GSP (\$ in mil)	Population	Debt per Capita	Ratings
California	3.8%	\$69,792	\$1,846,757	36,756,666	\$1,899	A1/A-/A-
Florida	2.7%	20,329	744,120	18,328,340	1,109	Aa1/AAA/AAA
Illinois	3.7%	23,302	633,697	12,901,563	1,806	A1/A+/A+
Massachusetts	7.2%	26,138	364,988	6,497,967	4,022	Aa1/AA/AA+
New Jersey	6.2%	29,680	474,936	8,682,661	3,418	Aa2/AA/AA
New York	4.4%	50,486	1,144,481	19,490,297	2,590	Aa2/AA/AA
Pennsylvania	1.7%	9,296	553,301	12,448,279	747	Aa1/AA/AA+
Rhode Island	3.5%	1,651	47,364	1,050,788	1,571	Aa2/AA/AA
US State Avg.	2.4%	7,921	NA	NA	NA	NA

EU Country	Govt Debt to GDP Ratio	Govt Debt (\$ in mil)	GDP (\$ in mil)	Population	Debt per Capita	Ratings
Greece	115.1%	\$391,820	\$340,352	10,737,428	\$36,491	A3/BB+/BBB-
Ireland	64.0%	149,998	234,374	4,203,200	35,687	Aa1/AA/AA-
Italy	115.8%	2,523,352	2,179,559	58,126,212	43,412	NR/A+/NR
Portugal	76.8%	180,441	234,872	10,707,924	16,851	NR/A-/AA-
Spain	53.2%	802,034	1,506,405	40,525,002	19,791	Aaa/AA/AA+
Eurozone	78.7%	10,121,449	12,867,343	491,582,852	20,590	NA

Source: S&P State Debt Review 12/16/09, Moody's, Fitch, Eurostat data via Bloomberg & the CIA Factbook.

COLLAPSED OIL RIG'S EFFECT ON GULF REGION

An estimated 12,000-25,000 barrels of oil a day have been gushing into the Gulf of Mexico just off the Louisiana coast since the Deepwater Horizon rig, leased to BP, exploded on April 20. The event killed 11 workers and the platform eventually collapsed into the gulf. As the story of attempts to slow the oil gushing from the collapsed rig continue we and the rating agencies have analyzed the financial implications this ecological disaster may have on the area. For over a month the oil has been spilling into the Gulf and since the best chance at stopping the oil flow involves the drilling of relief wells, a solution that is at least two months from completion, we expect that states and municipalities in the region will be affected for some time in varying degrees. By the middle of June we expect the oil will reach the Alabama (Aa1/AA), Florida (Aa1/AAA/AAA), Louisiana (Aa2/AA-/AA), and Mississippi (Aa2/AA/AA+) shorelines.

The economic impact will be most severe in the tourism and fishing industries among these states and municipalities. Florida and its communities possess a larger gulf coastline and overall greater exposure to the ecological disaster. Tourism alone comprises as much as 20% of Florida's economy and because the state also has no income tax, it is more dependent upon tax revenues. We also expect the effect on the credit of local coastal economies, especially those with a higher exposure to the tourism and fishing industries, to be strained and in some cases severely stressed in the near and medium term. How much credit deterioration they experience will depend upon several factors including community's proximity to the oil flow and their dependence upon the tourism and fishing industries. Each municipal rating agency quickly released reports noting that they are not planning any rating changes as of the date of their publications but that it is too early to tell what the affects will be while they are closely monitoring the situation.

This event is the United States' largest oil related disaster. For a comparative analysis we need to go back more than 30 years. In June 1979 the IXTOC deep exploratory oil well, near the Bay of Campeche, west of the Yucatan peninsula in Mexico about 500 miles south of the Texas shoreline suffered a blowout during drilling and collapsed. Oil made its way to US waters by August 6, 1979. It was estimated that 10,000 to 30,000 barrels of oil a day spilled into the gulf until two relief wells were drilled and the well was finally capped on March 23, 1980.

In June 1979 the IXTOC deep well suffered a blowout during drilling. It took nine months to cap the well.

Compare Barclay's 12 month sector returns in Janney's Municipal Sector Outlook.

2010 housing issuance has only been a fraction of historical levels.

A 1980 economic impact study reported that the most significant decline in tourism was identified in the South Padre Island (Aa3/A+) area. The impact from decreased tourism in the area reportedly cost around \$ 4 million dollars of business activity, or about \$11 million in 2010 dollars. **Tom Kozlik**

MUNICIPAL SECTOR REVIEW

The Municipal Sector Review is a summary of Janney FIS's short term outlook for various municipal sectors. We have not made any month to month changes to our sector outlooks. This month we have added 12 month returns to show the relative returns by sector. Following Janney's Sector Outlook is a summary of the Housing Sector in order to support our Stable outlook. **Tom Kozlik**

Janney Municipal Sector Outlook

Sector	Janney Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Sector Review
Municipal Bond Index	-	-	8.56%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	7.30%	Taxing power = more security	Feb 12 MBMM
Local Government	Cautious	Same	7.58%	Less support from states	-
School Districts	Stable	Same	-	State programs offer strong security	May 10 FIW
Airports	Cautious	Same	10.49%	Passenger and freight down YoY	Feb 8 FIW
Higher Education	Cautious	Same	8.53%	Low rated private schools face pressure	Jan 25 FIW
Health Care	Cautious	Same	13.10%	Falling reimburse from new reform	Apr MBMM
Housing	Stable	Same	10.12%	Single family is stronger than multi	This MBMM
Public Power (Elec.)	Stable	Same	8.30%	Essential purpose, but volatile	-
Tobacco	Cautious	Same	14.94%	Cigarette consumption declining	May 3 FIW
Toll Facilities	Stable	Same	10.49%	Traffic down, DS cov. strong	March, MBMM
Water and Sewer	Stable	Same	8.19%	Essential purpose	Apr 19 FIW

Source: Janney Fixed Income Strategy.

SINGLE FAMILY HOUSING

Housing Issuance

The highest annual volume of municipal housing bond issuance occurred in 2006 and 2007 when housing issuers sold \$30 billion per year. Market circumstances turned against housing issuers as

Recent Single Family Housing Pricings

Issuer	Par Amount	Week of Sale	Long Bond	Spread to MMD (bps)	PAC Bond
Pennsylvania HFA Aa2/AA+/NR	\$140.210	March 1	2028 @ 4.75%	112	None
North Dakota HFA Aa3/NR	32.000	May 10	2026 @ 4.45%	100	3.70% yld, 5.00% cpn, \$105.610, 4.85 yr avg life (75% to 500%)
Tennessee HDA Aa2/NR	74.710	May 10	2024 @ 4.20%	91	3.59% yld, 5.00% cpn, \$106.345, 5.00 yr avg life (75% to 400%)
Florida HFC Aaa/NR	90.000	May 17	2029 @ 4.60%	95	3.54% yld, 5.00% cpn, \$106.528, 5.00 yr avg (75% to 400%)
Maryland CDA Aa2/NR/AA	28.465	May 24	2021 @ 4.45%	157	None

Source: Janney Fixed Income Strategy.

interest rates rose and the effect from the world financial and credit crisis and low conventional mortgage rates sunk housing issuance to just over \$10 billion in 2009 while year to date 2010 numbers are tracking even lower at just over \$1 billion. Housing issuance has been slowed for two key reasons. First, mortgage rates offered by State HFA single family programs are not competitive enough to draw borrowers away from conventional loans. Second, many issuers sold bonds through the Treasury's New Issue Bond Program (NIBP).

Planned Amortization Class or PAC bonds are structured to a short average life and typically absorb prepayments over 75% PSA.

We do not expect significant future rating deterioration for single family state HFA programs such as Pennsylvania Housing's Single Family Mortgage Revenue bonds.

PHFA's 60 and 90+ day mortgage delinquencies are lower than national levels.

The NIBP is a program where the U.S. Treasury funds purchases of housing bonds by Fannie Mae and Freddie Mac. A total of \$18 billion was allocated to the purchase of housing debt, based on authority given to the Treasury under the Housing and Economic Recovery Act of 2008 (HERA). Issues sold through the NIBP were required to close by December 31, 2009 because the Treasury's authorization terminated under the HERA. Despite lower overall volume for 2010 the month of May saw some of the first single family housing issues to enter the market since the Pennsylvania Housing Finance Agency (Aa2/AA+) sold \$140 million of tax exempt bonds in March. The market for premium Planned Amortization Class or PAC bonds has been stable. Three of the referenced issues include PAC bonds sized in the 5 year average life range at 75% PSA (Public Securities Association prepayment model). PAC bonds are single family housing bonds with stated long maturities which are structured, based on prepayment assumptions, and priced to a shorter average life. These types of bonds are "structured" so that if and when the underlying mortgages prepay the prepayments will be used to redeem the PAC bond.

Janney Housing Sector Outlook

We do not expect housing volume to soon return to historical levels. The sparse volume will continue through the remaining months of the year and perhaps into 2011. Although, there could be an uptick in volume at the end of 2010 if the NIBP is extended but we have not seen a significant amount of information that would lead us to believe the Treasury has any such plans.

Janney's outlook on the municipal housing sector (with a focus on state housing finance agency single family programs) remains "Stable." Factors influencing our outlook include:

- Economic fundamentals have steadied and are starting to show some signs of improvement
- Many state housing finance agency single family programs are over collateralized at very healthy levels
- We do not expect significant future rating deterioration for single family State HFA programs such as Pennsylvania Housing's Single Family Mortgage Revenue bonds

Economic indicators have steadied and the economy has continued its slow recovery. The national unemployment rate peaked at just over 10% at the end of 2009 and is now showing signs of improvement. Although, we expect unemployment to remain at elevated levels through 2010 this recent leveling off should help halt the trend of rising mortgage delinquencies we have seen since the end of 2007. The stabilization of home prices should also help. February 2010 was the first month in which home prices increased year-over-year since December 2006. Existing home sales started to rebound as they grew 7.6% in April, a considerable increase over March's 6.8% month-over-month gain. These are two favorable trends showing increased demand for mortgages and they should help strengthen demand for State HFA mortgages. A final factor, and one of great importance, is that many State HFA single family programs have healthy ratios of assets (including mortgages) to outstanding debt. The California Housing Finance Agency and the Pennsylvania Housing Finance Agency both have asset to debt ratios of approximately 1.07x. Moody's benchmark for an Aaa rated State HFA is 1.10x.

We do not expect significant future rating deterioration for single family State HFA programs- Over the past two years some State HFA single family programs have faced rating

pressures mostly due to mortgage portfolio underperformance and to the downgrades of the private mortgage insurers. In April, the ratings of the California Housing Finance Agency's (A3/A) \$6.5 billion of single family Home Mortgage Revenue Bonds were dropped to A from AA- by Standard and Poor's and to A3 from Aa3 by Moody's.

Comparison of Mortgage Delinquencies

Type	30 Days	60 Days	90 Days or More	Total
California HFA	4.31%	2.12%	11.52%	17.95%
National (FHA Fixed Rate)	6.03%	2.61%	5.76%	14.40%
Pennsylvania HFA	7.83%	2.12%	2.17%	12.12%

Source: Mortgage Bankers Association; PHFA and CHFA disclosure.

NAIC Designation Definitions:

NAIC "1": is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and that repayment of principal is well protected.

NAIC "2": is assigned to obligations of high quality. Credit risk is low but may increase in the intermediate future and the issuer's credit profile is reasonably stable. This means that for the present, the obligation's protective elements suggest a high likelihood that interest, principal or both will be paid in accordance with the contractual agreement, but there are suggestions that an adverse change in circumstances or economic, financial or business conditions will affect the degree of protection and lead to a weakened capacity to pay.

NAIC "3": is assigned to obligations of medium quality. Credit risk is intermediate and the issuer's credit profile has elements of instability. These obligations exhibit speculative elements. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is reasonable for the present, but an exposure to an adverse change in circumstances or economic, financial or business conditions would create an uncertainty about the issuer's capacity to make timely payments.

The rating downgrades were due to the deterioration of the California housing market, an increase in number of foreclosures and delinquencies, the declining status of private mortgage insurers, and CHFA's limited internal mortgage insurance capability. This rating action makes CHFA the lowest rated state HFA single family program but CHFA remains profitable, includes an asset to debt coverage ratio of 1.07x, and is not currently in danger of missing a debt service payment.

In comparison, the Pennsylvania Housing Finance Agency's single family loan program had its ratings affirmed in March 2010 at Aa2/AA+. PHFA's ratings are due to its strong asset to debt ratio of 1.07x, positive loan portfolio performance, and moderate exposure to private mortgage insurers. Key differences between PHFA and CHFA are the higher quality performance of PHFA's mortgage portfolio compared to CHFA's and to national levels. PHFA's also has less exposure to low or sub-investment grade rated private mortgage insurance compared to CHFA. **Tom Kozlik**

NJ BAB FLOATING RATE NOTE

The New Jersey Economic Development Authority sold \$750 million of School Facilities Construction (Aa3/AA-/AA-) Build America Bonds structured as taxable floating rate notes during the week of May 10th. This is a unique structure that we have seen used on a limited basis as issuers search for short term options to Variable Rate Demand Obligations (VRDO). In contrast to VRDOs floating rate notes do not need liquidity in the form of letters of credit and stand-by bond purchase agreements because the floating rate note structure typically does not include puts and is not subject to regular remarketing. Bond interest payments are based on a quarterly

NJEDA LIBOR Based Floating Rate Note

Maturity	Rate
2013	3M LIBOR + 1.00%

Source: Janney Fixed Income Strategy.

reset based on three month LIBOR (Three month LIBOR reset at .53% on June 4) plus a spread that remains constant. NJEDA set its spread during pricing at 100 basis points. Louisiana sold gas tax bonds structured similar to this NJ issue back in May 2009 at LIBOR plus 250 & 275 basis points. Similar structures were also used on the tax-exempt side by the Pennsylvania Turnpike and the Commonwealth of Massachusetts more recently. Please see Janney's April 9, 2010 MBMM for a detailed description of the tax-exempt floating rate notes. **Tom Kozlik**

NAIC DESIGNATIONS FOR MUNICIPAL BOND ISSUES

- \$58 million of State of Maine (Aa2/AA/AA+) general obligation bonds sold in May were the first state new issue to include a NAIC designation (rating).
- We are currently not seeing a high demand for the NAIC designation from institutional or retail investors but this sentiment could evolve.
- There could be a benefit to bondholders for the NAIC designation to be assigned to municipal bonds sold by less frequent issuers because the NAIC performs annual surveillance for a minimal fee.

The Center for Insurance Policy and Research of the National Association of Insurance Commissioners (NAIC) provides credit assessments using a ratings scale that ranges from NAIC "1" to NAIC "6", typically for insurance companies risk based capital purposes. Most of the NAIC's 10,000 public designations grade corporate issues but there are about 800 for municipals. Most municipal designations were requested by insurance companies for issues not rated by the rating agencies. The NAIC will provide the designation to entities other than insurance companies. The designation can be obtained for \$3,000 (There is a \$1,400 annual cost thereafter for surveillance) with sponsorship from an insurance company. The initial cost is \$15,000 without sponsorship.

NAIC "4": is assigned to obligations of low quality. Credit risk is high and the issuer's credit profile is volatile. These obligations are highly speculative, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is low and that an adverse change in circumstances or business, financial or economic conditions would accelerate credit risk, leading to a significant impairment in the issuer's capacity to make timely payments.

NAIC "5": is assigned to obligations of the lowest credit quality, which are not in or near default. Credit risk is at its highest and credit profile is highly volatile, but currently the issuer has the capacity to meet its obligations. This means that the likelihood that interest, principal or both will be paid in accordance with the contractual agreement is significantly impaired given any adverse business, financial or economic conditions.

NAIC "6": is assigned to obligations that are in or near default. This means that payment of interest, principal or both is not being made, or will not be made, in accordance with the contractual agreement.

Source: http://www.naic.org/documents/svo_naic_public_listing.pdf

Rating Agency Equivalent to NAIC Designation

NAIC Designation	Moody's	S&P	Fitch
NAIC "1"	Aaa to A3	AAA to A-	AAA to A-
NAIC "2"	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
NAIC "3"	Ba1 to Ba3	BB+ to BB-	BB+ to BB-
NAIC "4"	B1 to B3	B+ to B-	B+ to B-
NAIC "5"	Caa1 to Caa3	CCC+ to CCC-	CCC
NAIC "6"	Ca to C	CC to D	CC to D

Source: http://www.naic.org/documents/svo_naic_aro.pdf.

The \$58 million Maine general obligation issue priced during the week of May 24 received the NAIC "1" designation, the highest designation, which is equal to an A- credit or above. The reason the designation is defined as equal to A- or above is because the risk based capital requirement for insurance companies is the same if a rating is in the range of A- to AAA. The Maine Preliminary Official Statement (POS), or offering document, included the NAIC designation (and ratings) on the front cover. An explanation of the NAIC Designation can also be found on page 12 of the POS, just after the Ratings description and a three page ratings letter or Credit Risk Assessment is required and included in Appendix I of the POS (includes a summary of credit strengths and weaknesses.) Maine's pricing did not indicate any significant pricing savings because of the designation. The longest tax-exempt maturity was 2016, which sold at a 2.20% yield, a 26 basis point spread to MMD.

Tom Kozlik

MUNICIPAL BOND MARKET MONTHLY

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Select Recent Rating Outlook and Rating Changes (June 4, 2010)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
State of Illinois	IL	Moody's lowered to A1 from Aa3	June 4, 2010	A1/A+/A+	Declining financial position and a lack of political will to address budget shortfall
Gettysburg College	PA	S&P raised rating to A from A-	June 3, 2010	Aa1/A/NR	Strong demand characteristics
State of Connecticut	CT	Fitch downgraded to AA from AA+	June 3, 2010	Aa2/AA/AA	Reliance on sizable deficit debt issuances
Nassau County	NY	Moody's lowered outlook to Neg. from Pos.	June 2, 2010	Aa3/A+/AA-	Expectation of declining financial position
W. Penn Allegheny Health Sys	PA	Moody's downgraded to B1 from Ba3	June 2, 2010	B1/BB/BB-	Significant volume declines
Culpeper County	VA	S&P raised to AA from AA-	May 28, 2010	Aa2/AA-/AA	Strong financial position and management
Collier County	FL	S&P raised rating to AA from AA-	May 28, 2010	Aa2/AA/NR	Strong credit characteristics
Evesham Township	NJ	Moody's lowered to Aa3 from Aa2	May 27, 2010	Aa3/NR/NR	Continuous deficits, anticipate less state aid
Central Falls	RI	Moody's downgraded to B3, S&P to C	May 21, 2010	B3/C/NR	Requested state assistance with budget
Milwaukee GO	WI	Fitch downgraded to A+ from AA-	May 20, 2010	Aa1/AA/AA+	Strong recessionary impact
FL Hurricane Catastrophe Fund	FL	Fitch upgraded to AA from AA-	May 10, 2010	Aa3/AA-/AA-	Regulation changes may improve claim paying
Umass Memorial Medical Center	MA	S&P raised outlook to positive from stable	April 29, 2010	Baa1/BBB+/NR	Strong operating performance and liquidity growth
Beebe Medical Center	DE	Moody's downgraded to Ba3 from Baa1	April 27, 2010	Ba3/CCC/A-	18 lawsuits have been filed citing negligence
Town of North Providence	RI	S&P lowered to BBB- from BBB+	April 22, 2010	Baa1/BBB-/NR	Negative GF, reliance on cash-flow borrowing.
Scranton	PA	S&P raised to BBB- from BB	April 22, 2010	NR/BBB-/NR	Improved cash position and rev. coll. procedures.
City of Woonsocket	RI	Moody's downgraded to Ba1 from Baa2	April 22, 2010	Ba1/NR/BBB-	Expected increase in accumulated deficit in 2010.
Long Island Power Auth (LIPA)	NY	Fitch raised its rating to A from A-	April 21, 2010	A3/A-/A	Solid financial performance for the past 5 years.
CA Dept of Veteran Affairs	CA	Moody's downgraded to Aa3 from Aa2	April 20, 2010	Aa3/AA-/AA-	Weak California housing market environment.
Mid-Bay Bridge Authority	FL	S&P lowered to BBB+ from A-	April 20, 2010	NR/BBB+/BBB+	Traffic declines over the past three years
CA Housing Finance Agency	CA	Moody's downgraded to A3 from Aa3	April 19, 2010	A3/A/NR	Mortgage underperformance
Montrose Area School District	PA	S&P raised its rating to A+	April 19, 2010	NR/A+/NR	Stable economy
Greenville Hospital	SC	Moody's downgraded to A1 from Aa3	April 16, 2010	A1/AA-/NR	Erosion in the system's profitability
Town of Hempstead	NY	Moody's raised to Aaa from Aa1	April 16, 2010	Aaa/AAA/NR	Conservative financial practices
Los Angeles	CA	Fitch lowered to A+ from AA-, then recal to AA- on 4/30	April 16, 2010	Aa2/AA-/AA-	Drawdown of general fund reserves
City of Newburgh	NY	Moody's lowered to Ba1 from Baa3	April 15, 2010	Ba1/NR/NR	Severe deterioration of financial position
Mount Nittany Medical Center	PA	S&P raised its outlook to positive from stable	April 14, 2010	NR/A-/A-	Reflects strong operating profitability
Arcadia University	PA	Assigned BBB+ (new rating)	April 14, 2010	NR/BBB+/NR	Stable Outlook.
City of York	PA	S&P lowered to BBB from BBB+	April 13, 2010	Aa3/BBB/NR	Four year trend of operating deficits.

Source: Moody's; S&P; Fitch and Janney FIS.

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State and Other Select Issuer Ratings (June 4, 2010)

State	Moody's			S&P			Fitch		
	Rating	Outlook	Last	Rating	Outlook	Last	Rating	Outlook	Last
Alabama	Aa1	Stable	4/16/2010	AA	Stable	8/3/2007	NR	-	-
Alaska	Aa1	Stable	4/16/2010	AA+	Stable	3/27/2008	AA+	Stable	4/5/2010
Arizona (*)	Aa2	Negative	4/16/2010	A+	Negative	12/23/2009	NR	-	-
Arkansas	Aa1	Stable	4/16/2010	AA	Stable	1/10/2003	NR	-	-
California	A1	Stable	4/16/2010	A-	Negative	1/14/2010	A-	Stable	4/5/2010
Colorado (*)	NR	-	-	AA	Stable	7/10/2007	NR	-	-
Connecticut	Aa2	Stable	4/16/2010	AA	Stable	9/26/2003	AA	Stable	6/3/2010
Delaware	Aaa	Stable	-	AAA	Stable	2/22/2000	AAA	Stable	4/13/2006
Dist. of Columbia	Aa2	Stable	4/16/2010	A+	Stable	6/6/2007	AA-	Stable	4/5/2010
Florida	Aa1	Stable	4/16/2010	AAA	Negative	1/14/2009	AAA	Negative	4/5/2010
Georgia	Aaa	Stable	-	AAA	Stable	7/29/1997	AAA	Stable	4/13/2006
Hawaii	Aa1	Negative	4/16/2010	AA	Stable	1/29/2007	AA+	Negative	4/5/2010
Idaho (*)	Aa1	Stable	4/16/2010	AA	Stable	7/20/2009	AA-	Stable	2/13/2007
Illinois	A1	Stable	6/4/2010	A+	Negative	12/10/2009	A+	Watch Negative	4/5/2010
Indiana (*)	Aaa	Stable	4/16/2010	AAA	Stable	7/18/2008	AA+	Stable	4/5/2010
Iowa (*)	Aaa	Stable	4/16/2010	AAA	Stable	9/11/2008	AAA	Stable	4/5/2010
Kansas (*)	Aa1	Stable	4/16/2010	AA+	Stable	5/20/2005	-	-	-
Kentucky (*)	Aa1	Negative	4/16/2010	AA-	Stable	6/23/2009	AA	Negative	4/5/2010
Louisiana	Aa2	Stable	4/16/2010	AA-	Stable	10/9/2009	AA	Stable	4/5/2010
Maine	Aa2	Stable	4/16/2010	AA	Negative	3/10/2010	AA+	Stable	4/5/2010
Maryland	Aaa	Stable	-	AAA	Stable	5/7/1992	AAA	Stable	4/13/2006
Massachusetts	Aa1	Stable	4/16/2010	AA	Stable	3/15/2005	AA+	Stable	4/5/2010
Michigan	Aa2	Stable	4/16/2010	AA-	Stable	5/22/2007	AA-	Stable	4/5/2010
Minnesota	Aa1	Stable	4/16/2010	AAA	Stable	7/24/1997	AAA	Stable	4/5/2010
Mississippi	Aa2	Stable	4/16/2010	AA	Stable	11/30/2005	AA+	Stable	4/5/2010
Missouri	Aaa	Stable	-	AAA	Stable	2/16/1994	AAA	Stable	4/13/2006
Montana	Aa1	Stable	4/16/2010	AA	Stable	5/5/2008	AA+	Stable	4/5/2010
Nebraska (*)	Aa2	Stable	4/16/2010	AA+	Stable	10/11/2006	NR	-	-
Nevada	Aa1	Stable	4/16/2010	AA+	Stable	6/23/2006	AA+	Stable	4/5/2010
New Hampshire	Aa1	Stable	4/16/2010	AA	Stable	12/4/2003	AA+	Stable	4/5/2010
New Jersey	Aa2	Stable	4/16/2010	AA	Stable	7/19/2005	AA	Stable	4/5/2010
New Mexico	Aaa	Stable	4/16/2010	AA+	Stable	2/5/1999	NR	-	-
New York	Aa2	Stable	4/16/2010	AA	Stable	9/14/2004	AA	Stable	4/5/2010
North Carolina	Aaa	Stable	1/12/2007	AAA	Stable	6/25/1992	AAA	Stable	4/13/2006
North Dakota (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/17/2009	NR	-	-
Ohio	Aa1	Negative	4/16/2010	AA+	Negative	9/23/2009	AA-	Stable	4/5/2010
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA	Stable	8/23/2007	AA+	Stable	4/5/2010
Pennsylvania	Aa1	Negative	4/16/2010	AA	Stable	11/6/1998	AA+	Stable	4/5/2010
Puerto Rico	A3	Stable	4/16/2010	BBB-	Stable	5/22/2007	NR	-	-
Rhode Island	Aa2	Stable	4/16/2010	AA	Negative	3/9/2009	AA	Negative	4/5/2010
South Carolina	Aaa	Stable	3/23/2007	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	A1	Stable	-	AA	Stable	12/21/2006	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	4/16/2010	AA+	Stable	10/12/2006	AAA	Stable	4/5/2010
Texas	Aaa	Stable	4/16/2010	AA+	Stable	8/10/2009	AAA	Stable	4/5/2010
Utah	Aaa	Stable	-	AAA	Stable	6/7/1991	AAA	Stable	4/13/2006
Vermont	Aaa	Stable	2/2/2007	AA+	Stable	9/11/2000	AAA	Stable	4/5/2010
Virginia	Aaa	Stable	5/27/2004	AAA	Stable	11/11/1992	AAA	Stable	4/13/2006
Washington	Aa1	Stable	4/16/2010	AA+	Stable	11/12/2007	AA+	Stable	4/5/2010
West Virginia	Aa2	Positive	4/16/2010	AA	Stable	8/21/2009	AA	Positive	4/5/2010
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010

Source: Moody's; S&P; Fitch and Janney FIS. (*) Denotes a Lease or Issuer Credit Rating.

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Agencies: Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

Mortgages: Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

High Yield Credit: Janney FIS ratings for employ "Barclay's U.S. Corporate High Yield Index" as a benchmark.

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