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Municipal Bond Ratings

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Municipal bond ratings determine the amount of investment risk and interest cost on bonds used for financing government project. These ratings, much like a credit risk evaluation, assess the following factors in determining the degree of interest and risk:

- Current state of the economy
- Debt structure
- Financial condition
- Management practices

However, this rating is not scientifically objective due to the fact that subjective evaluation also appears to play a role in the final rating assigned. Regardless, municipal bonds (<http://www.bondview.com/>) are extremely popular with investors due to their low level of default risk. While many factors go into the investment decision-making process, the municipal bond rating is often the single most important factor affecting municipal bonds.

The following table shows the bond investment ratings of the three major rating agencies:

AAA - This rating denotes the highest quality bonds, which are perceived to carry the smallest degree of risk to investors. Theoretically, muni bond interest payments will be protected, and investors can feel safe in knowing their principal is secure.

AA - Bonds of this rating are determined to excel as investment opportunities in all aspects. Both AAA and AA bonds are generally favored among investors, and thus, they are deemed "high grade bonds." However, AA bonds are perceived to carry additional risk, hence the marginally lower rating.

A - Instruments rated A grade are determined to be upper-medium grade investment opportunities. Associated principal and interest are protected adequately, but certain factors that are present may connote the presence of risk on the horizon.

BAA - Bonds that receive this rating are essentially medium grade investments. These middle of the road instruments aren't perceived to be highly protected or poorly secured. Interest and principal security appear to be satisfactory for the time being, but the possibilities of risk are present, and investors should approach

these securities with some degree of caution, particularly due to the speculative characteristics they may possess.

The numbers "1, 2, and 3" are also assigned to bonds with a rating of A, AA or BAA to correspond to the strength of the bond at each level, "1" being the strongest while "3" is the weakest security.

Role of Municipal Bond Ratings

Municipal bond ratings play a critical role in determining how much interest companies and other entities have to pay on their issued debt. They give investors information about the likelihood of bonds defaulting and the wisest of investors will see the potential government bond defaults in tentative projects and will instead focus on bonds backed by essential services like water, power, and sewage. The **Municipal bond ratings** on these projects are generally very high and carry the smallest degree of investment risk. Interest payments are protected by large, stable margins that are secure and relatively risk free.

Comparing Municipal Ratings to Corporate Ratings

As proven by Moody's **municipal bond ratings** scale, the risk associated with corporate grade bonds are considerably higher than that of first class municipal bonds. If you're looking to reduce risk and pay relatively low interest, invest in projects that have consistent, safe track records. While corporate bonds are far more risky than municipal bonds (<http://www.bondview.com/>), they do have the ability to bring substantially higher yields. However, as interest rates are rising with the general perception that the economy is rebounding, it's much safer to consider short-term muni bonds (<http://www.bondview.com/>). Remember, compared to corporate bonds, municipal bond rating defaults have been much less common, and recoveries in the event of default have been much more successful.

While investors have always relied on the ratings agencies to steer them through the often murky waters of the municipal bond market, those who intend to stay afloat should roll up their sleeves and personally perform research on municipal bonds (<http://www.bondview.com/>). The **municipal bond ratings** agencies have often failed to portray municipal bonds accurately; thus, taking the time to conduct your own bond analysis can serve as the clearest guiding light when navigating the market.

To make your investment life a little bit easier, BondView has developed a number of tools for the muni investor, including our bond pricing (<http://www.bondview.com/price-check/bond/626207YS7>) check and municipal bond portfolio (<http://www.bondview.com/portfolio/view>). Now, dig deeper into potential investments and reevaluate your portfolio with our individual ratings for liquidity, volatility and more with the BondView Summary Rating™ system.

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