

Fed Takes Chainsaw to Rates

Two Cuts in Ten Days with More to Come

On January 22nd, the Federal Reserve cut two key interest rates by 75 basis points or ¾ of 1% citing concerns about the economy and turmoil in the financial markets. This move by the Fed came as a surprise since it was not done at a regularly scheduled meeting but at an emergency meeting called to address sharp declines in domestic and foreign futures markets. It was the biggest single rate cut by the Fed since October 1984. The two rates lowered were the Fed Funds Rate (from 4.25% to 3.50%), which impacts how much consumers pay on credit card debt, home equity lines of credit and auto loans, and the Discount Rate (from 4.75% to 4.00%) which is what it costs banks to borrow directly from the Fed. In part because of the Fed's action, the stock market regained some of the ground lost earlier in the day and closed down 121 points or 1.02% – after being down by over 500 points earlier in the day. That same day, the Municipal Market Data (“MMD”) interest rate scales reflected that yields for municipal bonds maturing in one and two years decreased by approximately 25 basis points, a very big one day drop. At a scheduled meeting held on January 29/30, the Fed again cut its Fed Funds Rate and Discount Rate by an additional 50 bps.

The Fed next meets on March 18th and another rate cut is expected.

Bond Insurers Struggle

CIFG Downgrades Follow AMBAC, FGIC and XLCA

As a result of their exposure in the mortgage-backed securities market, in February municipal bond insurers AMBAC, FGIC and XLCA, and in early March, CIFG, lost their “triple A” ratings. As a result, bonds insured by those firms have lost value in the secondary market. The amount of value lost depends on the extent of the downgrades and the issuer's underlying credit rating. Now, more than ever, an issuer's underlying credit rating will impact its cost of capital. To date, only two municipal bond insurers, FSA and Assured Guaranty, have maintained their “Aaa/AAA/AAA” ratings and trading values meaning it generally remains a good business decision to use those insurers for a bond issue. Holders of fixed-rate, insured municipal bonds are adversely affected by their insurer's downgrades only if they sell their bonds prior to maturity. Issuers of fixed-rate, insured bonds are not directly affected by the loss of their insurers' Aaa/AAA/AAA ratings.

Finally, stepping into the fray was Warren Buffet's Berkshire Hathaway, which insured a \$10 million deal issued by the City of New York on January 9, 2008. Buffet subsequently offered to re-insure billions of other bonds but was rebuffed due to his extremely high insurance premiums.

RECENT SALE RESULTS

<u>Issuer</u>	<u>Issue Type</u>	<u>Par Amount</u>	<u>Sale Date</u>	<u>Term</u>	<u>Rate</u>	<u>Purchaser</u>
Elmira City Schools	BANs	\$13,750,000	6-Mar	12 mos.	2.01%	Janney Montgomery Scott
Niagara Wheatfield CSD	Refunding	5,865,000	27-Feb	8 yrs.	2.99%	Bank of New York, N.A.
Lancaster CSD	Refunding	7,460,000	26-Feb	10 yrs.	3.22%	Bank of New York, N.A.
Spencerport Village	Bonds	1,805,000	14-Feb	12 yrs.	3.27%	Wachovia Securities
Spencerport Village	BANs	1,366,000	14-Feb	6 mos.	2.22%	First Niagara Bank
Ken-Ton UFSD	Bonds	6,559,000	7-Feb	15 yrs.	3.19%	Roosevelt & Cross. Inc.
Hempstead Village	Bonds	3,630,000	24-Jan	18 yrs.	4.08%	Roosevelt & Cross. Inc.
White Plains City	Bonds	4,835,000	17-Jan	20 yrs.	3.72%	Boening & Scattergood
Elmira City Schools	BANs	14,300,000	16-Jan	12 mos.	2.59%	Axiom Capital

Upcoming Fed Meetings

Following is a schedule of the Fed's Open Market Committee meetings for the remainder of 2008:

MARCH 18
APRIL 29/30
JUNE 24/25
AUGUST 8
SEPTEMBER 16
OCTOBER 28/29
DECEMBER 16

Each meeting date is tentative until confirmed at the meeting immediately preceding it.

UPCOMING EVENT

NYS GOVERNMENT FINANCE OFFICERS ASSOCIATION

ANNUAL MEETING

ALBANY MARRIOT, WOLF ROAD

APRIL 2 TO 4, 2008

Interest Rates Whipsaw

Both long and short-term interest rates have experienced extreme volatility over the past year, especially in recent weeks. Tax exempt interest rate scales published each business day by Municipal Market Data ("MMD") reflect the degree of volatility present in the market since last year.

Term	As of 03/09/07	As of 02/13/08	As of 03/10/08
01 Year	3.55%	1.05%	2.05%
02 Years	3.53	2.03	2.19
03 Years	3.51	2.30	2.41
04 Years	3.51	2.51	2.66
05 Years	3.53	2.67	2.83
10 Years	3.69	3.40	3.66
15 Years	3.83	3.91	4.30
20 Years	3.91	4.20	4.66

One year ago, while short-term rates were much higher, long-term rates were significantly lower than today's levels, currently making notes a more attractive financing option.

Auction-Rate Bonds Not Living Up to Their Name

*Nassau County and City of Buffalo
Among Those Affected*

The latest repercussion being felt in the tax-exempt market as a result of the sub-prime mortgage debacle is a spate of failed auction-rate bond sales. Auction-rate bonds are long-term securities which are remarketed at regular intervals, typically every 7, 28 or 35 days, to capitalize on what are traditionally lower, short-term interest rates. For this type of debt, a broker-dealer solicits bids in a "Dutch auction" and the interest rate on the bonds gets reset until the next remarketing date at the lowest interest rate at which all of the debt could be sold that day. In the last month, over 1,000 sales of auction-rate bonds failed to sell on their remarketing dates resulting in some issuers being forced to pay a "default" interest rate which in some instances is as high as 20%. Compare this to 2007, when fewer than a dozen auction-rate bond sales failed the entire year. The primary reason for the failed auction-rate sales is the diminishing credit qualities being experienced by the municipal bond insurers that insure these issues.

As of March 10, 2008, municipal bond insurers AMBAC, CIFG, FGIC and XL, have all been downgraded below the "triple A" level by one or more of the three rating agencies, Moody's, Standard & Poor's and Fitch. While it is typically very large entities such as the Port Authority of New York-New Jersey and the City of New York that use this financing technique, the City of Buffalo and Nassau County recently suffered failed remarketing efforts and it has been reported the City of Buffalo's Water Board is paying a tax exempt interest rate of 11% on some of its debt while Nassau County is paying 15%.

As a result of the continued tumult in the market, short-term interest rates rose dramatically in February as investors sought to purchase high yielding auction-rate bonds rather than traditional fixed-rate debt. One year note rates for A-rated credits are currently around 2.30% up from approximately 1.25% in mid-February. MMD's interest rate scales show a 4.30% rate for a 15-year, insured bond, up approximately 40 basis points in the past month.

Finally, in early March, the Securities and Exchange Commission and the major Bond Counsel firms have determined that issuers of tax-exempt bonds which were insured by one of the downgraded firms are required to file a Material Events Notice as part of their Continuing Disclosure Obligation under SEC Rule 15c 2-12.