

SPECIAL COMMENT

Frequently Asked Questions About The Recalibration Of U.S. Municipal Ratings To The Global Rating Scale

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1. What are “GSRs” and what does the recalibration mean for the municipal market?

GSRs are Global Scale Ratings which are currently used across the Moody’s rated universe except U.S. municipal ratings. The global rating scale seeks to measure expected loss, which is the product of default probability and the loss that would occur following a default. In the upper investment grade rating portion of the scale, global scale ratings are more reflective of default probability than of expected loss due to low credit risk at these high rating levels. In the past, Moody’s rated U.S. municipal credits on a unique rating scale which historically sought to measure distance to distress rather than expected loss.

2. Are these recalibrated ratings upgrades of the municipal ratings?

No, this is a recalibration to a different scale, not a review of individual credit factors. As a result, these rating changes are not credit actions, do not reflect any change in our assessment of the intrinsic creditworthiness of the securities and are not upgrades of individual ratings. In other words, our credit opinions are being translated from one rating scale to another.

3. How will I know if the rating on my bond has been recalibrated?

Moody’s data products will identify recalibrated ratings of municipal issuers and issues by indicating “change in scale” in the rating history for each municipal rating. During the recalibration period, in most cases, bonds that have been recalibrated or are already on the global scale will be marked with a “GSR” notation after the rating. Bonds that do not contain that notation, other than bonds fully backed by letters of credit with no underlying rating, are still on the municipal scale and have not yet been recalibrated.

4. What is the actual process for recalibrating ratings?

Ratings will be recalibrated over a four week period beginning in mid-April, 2010 following Moody's methodology, "**Recalibration of Moody's U.S. Municipal Ratings to its Global Rating Scale**". A projected schedule for the recalibration is posted on moodys.com at www.moodys.com/gsr.

For new sales during the recalibration period, securities will be rated on the municipal rating scale if the sector has not been recalibrated and on the global rating scale if that sector has already been recalibrated. For local governments, the sector is defined as the particular state for those local governments.

5. Does this recalibration change the meaning of your ratings?

Yes. Moody's global scale ratings emphasize expected loss, which includes an assessment of both probability of default and loss in the event of a default while municipal scale ratings historically emphasized distance to distress. Like other global scale ratings, the recalibrated municipal ratings will reflect a greater emphasis on default probability at the higher investment grade rating levels, and will be comparable with Moody's rated debt in other rating groups.

6. Are you going to explain the rationale for individual ratings? If not, why not?

The rationale for the changes is explained in our published methodology titled "**Recalibration of Moody's U.S. Municipal Ratings to its Global Rating Scale**" which outlines our approach to each sector and sub-sector and explains the analytical rationale for each group of ratings. Since this is a recalibration of ratings from one scale to another, not a review of individual credits or credit factors, the rationale for changes will apply to groups of ratings, not individual credits.

7. Will all municipal ratings be recalibrated the same way?

All municipal ratings will be recalibrated according to the methodology referenced above which outlines the process used for recalibrating each sector in the municipal market. Those processes were arrived through a benchmarking process. The recalibration results may vary by sector to reflect appropriate placement on the global scale but will be consistent within sectors by rating category.

8. How will you alter your rating methodologies to reflect the recalibration?

We have published a methodology "**Recalibration of Moody's U.S. Municipal Ratings to its Global Rating Scale**" that outlines our approach to the recalibration of each sector and explains the analytical rationale for each group of ratings.

After the recalibration is complete, we will begin updating our rating methodologies to display ratings and metrics by rating category utilizing the global scale ratings.

9. How can your GSR municipal ratings be decomposed into Probability of Default (PD) and Loss Given Default (LGD)?

Moody's global scale ratings are based on expected loss and, as such, incorporate both probability of default and loss upon default. The relative importance of the two factors varies somewhat throughout the rating scale. For sectors and industries characterized by low average losses upon default (otherwise referred to as high recovery), such as regulated utilities, project finance, and

governments at all levels, there is a limit to the amount of benefit given to low anticipated losses captured by the rating.

Global scale ratings reflect greater emphasis on default probability at the higher investment grade rating levels. By contrast, LGD becomes an increasingly important factor at the lower end of the rating scale

10. How will these GSR rating changes relate to short-term debt ratings?

Short-term ratings are not impacted by the recalibration as they already are calibrated consistently with short term ratings on the global scale. The recalibration methodology updates the long term rating thresholds which drive, in part, the short term ratings on various types of instruments.

Moody's Related Research

Rating Methodology:

- » [Recalibration of Moody's U.S. Municipal Ratings to its Global Rating Scale, March 2010 \(123300\)](#)

Special Comments:

- » [Request for Comment: Assignment of Global Ratings to Tax-Exempt Municipal Obligations, 3/20/08 \(108116\)](#)
- » [Moody's U.S. Municipal Bond Defaults and Recoveries, 1970-2009, January 2010 \(122579\)](#)

Announcements:

- » [Moody's Extends Comment Period on U.S. Public Finance Rating Scale, 6/12/08](#)
- » [Moody's to Recalibrate its US Municipal Bond Ratings to the Company's Global Rating Scale, 9/2/08](#)
- » [Moody's to Recalibrate U.S. Municipal Ratings to Global Rating Scale, 2/13/2009](#)
- » [Moody's Recalibrates its Existing Global Scale Ratings Assigned to U.S. Public Finance Issues, 3/18/2009](#)
- » [Moody's U.S. Municipal Ratings to Move to Global Scale Beginning April, 3/16/2010](#)

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