

RATINGSDIRECT®

December 10, 2007

Credit FAQ:

Local Government Investment Pools

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Local Government Investment Pools

Local government investment pools (LGIPs) continue to remain in the spotlight after reports of distressed investments surfaced several weeks ago. Standard & Poor's Ratings Services published a report on Nov. 30—"S&P Rated Local Government Investment Pools Weathering Storm"--and we have continued to respond to questions on LGIPs since then. These frequently asked questions address many of the common inquires from pool sponsors, participants, investors, regulators, and the media regarding LGIPs.

Frequently Asked Questions

How many LGIPs are there? What is the total size of these pools?

Since there is no uniform source of this information it is difficult to know how many LGIPs there are. Recent reports on this sector indicate that there are at least 125 LGIPs that have over \$200 billion in investments.

How many states offer a LGIP?

According to iMoneyNet, 45 of the 50 states have one or more LGIPs with Alabama, Hawaii, Mississippi, North Dakota, and Vermont being the five with no LGIPs.

How many LGIPs does Standard & Poor's rate?

We began rating LGIPs in 1992 and currently maintain public ratings on 77 LGIPs from 26 states totaling more than \$150 billion in assets under management. We assign ratings on a request basis and therefore we do not rate all LGIPs.

What state sponsored LGIPs does S&P rate?

As of Dec. 10, 2007, we rate 20 state sponsored LGIPs from 13 states.

Rated State-Sponsored LGIPs			
State	LGIP	Rating	
CT	Connecticut State Treasurer's Short-Term Investment Fund	AAAm	
GA	Georgia Extended Asset Pool	AAAf/S1	
GA	Georgia Fund 1	AAAm	
ID	Idaho State Treasurer's Diversified Bond Fund	AAAf/S2	
ID	Idaho State Treasurer's Local Government Investment Pool	AAAf/S1+	
IL	Illinois Funds - Money Market Fund (The)	AAAm	
IL	Illinois Funds - Prime Fund (The)	AAAm	
KS	Kansas Pooled Money Investment Portfolio	AAAf/S1+	
LA	Louisiana Asset Management Pool	AAAm	
MD	Maryland Local Government Investment Pool	AAAm	
NM	New MexiGROW Local Government Investment Pool	AAAm	
OH	State Treasury Asset Reserve of Ohio (STAR OHIO)	AAAm	
PA	Pennsylvania INVEST Daily	AAAm	
PA	Pennsylvania Treasury INVEST Community Pool	AAAm	
TX	State of Texas Treasury Pool	AAAf/S1	

Rated State-Sponsored LGIPs(cont.)			
TX	Texas Local Government Investment Pool	AAAm	
TX	TexPool Prime	AAAm	
VA	Virginia Local Govenment Investment Pool	AAAm	
WV	West Virginia Government Money Market Pool	AAAm	
WV	West Virginia Money Market Pool	AAAm	

A comprehensive list of rated LGIPs is available here.

Does Standard & Poor's rate the Florida Local Government Investment Pool, operated by State Board of Administration of Florida?

Standard & Poor's does not have a rating on the Florida LGIP. In December, the Florida State Board of Administration requested a rating on Fund A of the LGIP, a recently created sub-fund that, according to the Board, contains high credit quality performing assets.

Who invests in these LGIPs?

LGIP participants include but are not limited to cities, counties, boards of education, state agency trust funds, school districts, and other public entities. Entities required to invest in a LGIP are typically referred to as "mandatory participants" while those that are able to invest elsewhere are referred to as "voluntary participants." LGIPs usually have cyclical asset flows based on tax payments and receipts, bond proceeds, and salary and benefit payments to name a few.

Do these investors have other investment alternatives?

LGIP investors have limited investment alternatives that vary from state to state. Individual state statutes specify approved investments, which typically include, but are not limited to, bank certificates of deposit, U.S. Treasury instruments, and money market mutual funds.

What does a Standard & Poor's LGIP rating mean?

Standard & Poor's assigns two types of ratings to LGIPs. About 60% of the pools that we rate are assigned principal stability fund ratings (PSFRs, also called money market fund ratings) and the remainder are assigned fund credit quality and volatility ratings.

PSFRs (represented by AAAm, AAm, etc.) express Standard & Poor's opinion regarding a pool's ability to maintain principal value and limit exposure to losses due to credit, market, and liquidity risks. These ratings are assigned to LGIPs that seek to provide a stable net asset value (NAV) of \$1.00 per share and whose investment guidelines are, in our opinion, consistent with that objective.

Fund credit quality ratings (represented by AAAf, AAf, etc.) express our opinion of a pool's ability to provide protection against losses caused by credit defaults. Fund volatility ratings (represented by S1+, S1, S2, etc.) express our opinion of a fixed income pool's sensitivity to changing market conditions. Fund credit quality and volatility ratings are assigned to fluctuating NAV pools or to pools whose investment guidelines are more similar to short term fixed income funds than to traditional money market funds.

What is Rule 2a-7?

Rule 2a-7 under the Investment Company Act of 1940 (ICA) governs U.S. registered money market funds (MMFs). The Rule outlines specific investment and operating guidelines for registered MMFs which include but are not limited to: maximum weighted average maturity of 90 days or less, 397 day maximum final maturity of a fixed

rated security, at least 95% invested in first tier securities (i.e. A-1/P-1/F-1/etc.), no more than 5% in second tier securities (i.e. A-2/P-2/F-2/etc.), and some very detailed diversification guidelines.

Why do some funds say they are "2a-7-like"?

Funds that are not required to register under the ICA often represent to the market that they are "2a-7-like." LGIPs in particular, but also some managed baskets of fixed income funds, model their investment guidelines and operations after rule 2a-7. Since they are not registered, they are not required to (and generally do not) meet all of Rule 2a-7 guidelines. Therefore, 2a-7-like funds may have longer weighted average maturities or final maturities and may not follow all diversification guidelines of rule 2a-7.

How does a MMF (principal stability fund) rating take into account Rule 2a-7 requirements?

Our MMF ratings speak to a fund's ability to maintain a \$1.00 NAV. Therefore, our criteria stress the rule 2a-7 requirements. In general, weighted average maturity, individual security credit quality and overall portfolio credit quality differ from the 2a-7 requirements. Moreover, we do not base our ratings only on these quantitative factors, but conduct a qualitative review of each investment manager before a rating is assigned. For more information on PSFR criteria please, see our 2007 fund ratings criteria.

Has S&P taken any rating actions on LGIPs?

On Oct. 22, 2007 we placed the King County, Wash. investment pool's 'AAAf' rating on CreditWatch with negative implications (see "King County Investment Pool 'AAAf' Rating On CreditWatch Negative").

How frequently does S&P review rated LGIPs?

For LGIPs that have a PSFR rating, we review pool holding reports and summary statistics weekly. For LGIPs that have fund credit quality and/or volatility ratings we review pool-holding reports and summary statistics monthly. Additionally, fund analysts maintain an open dialog with the pool management team throughout the year and we conduct annual, generally on-site, management review meetings for all rated pools.

How is a LGIP rating different from a debt rating?

LGIP ratings (and funds ratings in general) are not directly comparable to a debt rating because of differences in investment characteristics, rating criteria, and the creditworthiness of portfolio investments. Debt ratings address an obligor's creditworthiness, i.e. its capacity to meet its financial obligations in accordance with the terms of the obligations. For more information please see Standard & Poor's ratings definitions.

Do all asset-backed commercial paper (ABCP) programs have exposure to mortgages/subprime?

As of Aug. 31, 2007, U.S. residential mortgages represented less than 20% of rated ABCP and, of that amount, approximately half was in non-prime mortgages. The remaining assets of rated ABCP programs are generally from the auto, credit card, equipment, student loans, trade receivables, CDOs and other consumer receivables.

What percent of ABCP programs have been downgraded since early August?

There are over 300 ABCP issuing structures in today's market which includes conduits, structured investment vehicles (SIVs), and commercial paper issuing CDOs. In 2007 we've seen over 30 structures wind down and, since August, Standard & Poor's has downgraded just 12 structures that issue ABCP representing approximately 2% of the total ABCP outstanding.

How many S&P rated LGIPs have exposure to ABCP and/or SIVs?

As of early December, there were 15 rated LGIPs with exposures to ABCP and/or SIVs. Due to expected maturities, this number was down from 17 when we last published a report on LGIPs on Nov. 30. Of these 15 LGIPs with

either ABCP and/or SIV exposure, 14 owned only ABCP, one owned only SIVs and six owned both.

What is the average ABCP and SIV exposure in S&P rated pools?

As of early December the average ABCP exposure was 12.3% and the average SIV exposure 1.3% of the value of the portfolio. These 15 rated LGIPs had an average size of more than \$2.5 billion and maintained an average of more than 40% in securities maturing within seven days.

What ABCP or SIV programs were the most widely held by S&P rated LGIPs

According to the reports received during the week of Dec. 3 the top five programs held by the rated LGIPs were:

- (1) Ciesco LLC (sponsor: Citibank N.A.; multiseller ABCP, as of June 2007 mortgage/CDO collateral < 20%);
- (2) Amsterdam Funding Corp. (sponsor: ABN AMRO Bank N.V.; multiseller ABCP, as of July 2007 mortgage/CDO collateral < 15%);
- (3) Sigma (investment manager: Gordian Knot Ltd.; SIV, specific asset details unavailable);
- (4) Sheffield (sponsor: Barclays Bank PLC; multiseller ABCP, as of July 2007 mortgage collateral approximately 80%); and
- (5) Ranger Funding Company, LLC (sponsor: Bank of America N.A.; multiseller ABCP, as of July 2007 mortgage/CDO collateral < 10%).

SIVs have been affected the most by the recent market disruption. Is there any light at the end of the tunnel?

On Dec. 7, 2007 Standard & Poor's published "The Global Liquidity Squeeze Has SIVs In A Tight Spot—But Solutions For Some Emerge". That article reported that some positives are beginning to emerge, as SIV managers are weathering these short-term disruptions by restructuring the vehicles in several ways. Additionally, the article indicates the credit quality of the underlying assets remains good, and to date, less than 1% of SIV assets have been downgraded and most of these downgrades were with respect to three SIVs: Cheyne Finance, Axon Financial Funding, and Rhinebridge.

Where can one find out more info on a specific state pool? County pool? City Pool?

Most state treasurers' websites contain information on their pools. Additionally, industry trade groups and organizational bodies such as National Association of State Treasurers (NAST), Government Finance Officers Association (GFOA), and Government Investors Officers Association (GIOA) also provide some information on LGIPs.

Standard & Poor's also published today "Credit FAQ: U.S. State And Local Government Investments And Recent Market Disruption."

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